

SES Water
Minutes of a Meeting of the Board Meeting
Thursday 26 May 2022

**To be held at Elmer Treatment Works, Hawks Hill, Fetcham and via MS Teams
commencing at 2.15pm**

Present:

D Shemmans	DS	(Chairman)
M Legg	ML	
J Woods	JW	
K Kageyama	KK	
K Oida	KO	
I Cain	IC	
P Kerr	PK	

In attendance:

R Wiles	RW
T Kelly	TK
N Houlahan	NH
K Thornton	KT
J Gilbert	JG
S Brown	SB
J Omura	JO
E Prince	EP

Absent:

Tour of Elmer Treatment Works

2022 21. Declaration of Interests

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

2022 22. Minutes of Previous Meetings (including website minutes)

The minutes of the meetings held on 23 March 2022 were agreed and signed by the Chair, with summarised Board minutes approved for publication on the website.

2022 23. Matters Arising and rolling board agenda

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

- Environmental compliance – confirmation was provided by TK of SES Water's ongoing compliance with its environmental/abstraction obligations.
- DWI – NH noted the slide pack on DWI matters provided to the Board as part of today's meeting, which detailed recent interactions and requests by the DWI. NH confirmed that no open recommendations currently reside with SESW from the DWI, although feedback is still to be received from the DWI on recent audits.
- Customer charter – ML noted the recent update on this matter provided to him by KT, with a further review by internal audit pending to provide guidance on next steps.
- NED induction – SB noted that an induction day was now scheduled for RW on 16 June, which would also cover regulatory matters as indicated by Ofwat during the recent interview with RW.

PK noted that all other matters were covered in the papers for today's meeting.

2022 24. Board Committee Reports

DS noted the updated format for Committee reporting at the Board, with certain Committee reports now taken as read – namely the Health, Safety and Wellbeing, Energy Strategy Committee and Environmental, Social and Governance Committee reports for this Board meeting. No Board decisions or approvals were required from such Committees in this session.

Report from the Nomination Committee

DS reported on the recent Nomination Committee, noting the key points of discussion included:

- The logistics of DS handover of chair responsibilities with Jeremy Pelczer, the outgoing Board chair.
- The approval by the Nomco and recommendation to the Board of the appointment of RW as an independent non-executive director, following a successful interview with Ofwat (with the Board to approve this recommendation at the end of today's meeting).
- Certain executive and senior leadership (ELT and SLT respectively) succession planning matters.

Report from the Remuneration Committee

JW reported on the recent Remuneration Committee, noting the key points of discussion included:

- Approval and recommendation to the Board of year-end SLT and ELT base pay increase and annual bonuses (including CEO and CFO bonuses), with a limited number of SLT related bonus and Terms & Conditions matters to be re-reviewed and cleared with IC prior to July 2022 Remco.
- Approval and recommendation to the Board of the 2019 LTIP payment.
- Approval and recommendation to the Board of the 2022/23 executive pay policy, including annual bonus criteria.
- Approval and recommendation to the Board of the 2022/23 executive, SLT and ELT bonus criteria.
- Approval and recommendation to the Board of the 2022 LTIP plan, including measurement criteria.
- An update on gender pay gap matters with associated actions.
- A review of ELT and SLT benchmarking, with further work to be performed at next Remco on insights and recommended actions.

The Board approved the recommendations from the Nomco on SLT/ELT annual bonuses (noting limited actions for IC above), the CFO's 2019 LTIP payment, the 2022/23 executive pay policy, the 2022/23 bonus criteria for all staff and the 2022 LTIP plan.

Report from the Governance Committee

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

- An update from JW on the recent Ofwat NED conference.
- A review of recent feedback from Ofwat on governance related matters, with limited direct recommendations provided to the Company outside of further executive bonus and dividend disclosures.

- Approval by the Committee of the proposal 2022/23 Board training schedule and actions arising from the recent internal Board effectiveness review.

Report from the Finance Committee

ML reported on the recent Finance Committee, noting the key points of discussion included an update on the status of the potential bond offering and planned actions for long-term finance requirements in light of PR24.

Report from the Audit Committee

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

- The review by management of key judgements and estimates in the year, noting in particular the reasonableness of the bad debt and measured income accrual 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 bad debt, revenue reconciliations and remaining tests of detail.
- The insightful Motts year-end report, assuring the non-financial performance commitments, with recommendations for closure of the work for this year ahead of 30 June publication date.
- The recent results from internal audit, the risk register review and the 2022/23 internal audit programme, with a note that the 24 non-conformities outstanding from previous audits required to be addressed.
- The recent positive progress in the IT general controls area by the Company, with a move to a controls-based audit planned for next year.
- The private session with PwC.
- 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, with the exception of the Social Media policy pending further comments from RW.

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 15 July 2022.

2022 25. Regulatory update (including PR24 Committee update)

PK reviewed with the Board the accompanying regulatory update paper, noting:

- The recent discussion with Ofwat's financial resilience team and pending PR24 guidance in this area.
- The positive meeting with Ofwat and RW ahead of her formal appointment by the Board. DS requested that LT plan his upcoming meetings with Ofwat's new Chair, Ian Coucher, with a potential invite to the November 2022 Board dinner.
- The status of the Company's plans for PR24, with PK reviewing the recent updates from the last PR24 Steering Committee chaired by ML as detailed in the deck provided to the Board, noting in particular:

- The pending draft PR24 methodology from Ofwat and associated outstanding guidance.
- The recent speeches made by senior Ofwat directors which provided good guidance on key PR24 focus areas.
- Following a question from JW, KT and PK explained the ongoing deliberations by Ofwat with respect to their collaborative customer engagement programme and resultant delays in methodology and implementations.
- The next stages of Board interaction over the coming months, commencing with a PR24 deepdive on 19 July to address – amongst other items – the Board’s approval of key elements of SESW’s PR24 strategy document, including key strategic options. PK confirmed that this would also take into account the proposed position on softening.
- The work performed to date on long-term delivery strategy, and plans for issuance of a strategic document in October 2022 following Board review and approval, inclusive of Ofwat’s early review.

2022 26. **Ordinary dividend**

PK reviewed with the Board the accompanying paper on the proposed final dividend for the year-ended 31 March 2022.

The paper requested approval of the payment of a final ordinary dividend in June 2022 of £1.64m from the appointed business in respect of the year-ended 31 March 2022, with the following points noted.

Dividends paid in the year-ended 31 March 2022

- Due to the timing of appointed dividends declared and paid in the financial year, the appointed dividend paid in the year-ended 31 March 2022 comprised of the final appointed dividend from the year-ended 31 March 2021 (£1.4m paid in June 2021) and the interim appointed dividend in respect of the year-ended 31 March 2022 of c£1.5m paid in November 2021.
- This total appointed dividend paid in the year-ended 31 March 2022 of c£2.92m represents a dividend yield for the year-ended 31 March 2022 of c3.5% (2021: 5.1%)

Dividends payable for the year-ended 31 March 2022

- The appointed dividend payable for the year-ended 31 March 2022 comprises of the interim appointed dividend paid in November 2021 noted above, and a final appointed dividend, approved by the Board and paid in May 2022.
- The Board considered both the interim and final appointed dividend in respect of the year-ended 31 March 2022 were appropriate and in line with the Company’s dividend policy given that:
 - The dividend has been calculated based on the allowed return on regulatory equity allowed in the PR19 determination of 3.77%
 - Performance has substantially improved since prior year in terms of meeting our obligations and commitments to customers. Rewards under the regulatory framework for leakage and supply interruptions have been achieved, together with a strong water quality performance and significant support for our vulnerable customers. While certain commitments were not met – for example C-MeX, D-MeX and Voids performance – the successful implementation of the Company’s new billing system and improved performance in these areas were considered positive

customer service factors in consideration of the proposed dividend payment

- Forecast profit before tax in the last two years of the AMP returns to higher levels when the impact of current high inflation on revenues is realised – there is not an expectation of a sustained downturn in profits
- There is no historical precedent of adjusting dividend levels when the Company's profitability has been positively or negatively impacted by the non-cash effects of inflation on indexation, on our long-term bond or deferred tax changes. The Board do not recommend adjusting dividends for such matters in the current year when a loss after tax has been incurred as noted above
- The long-term financial resilience of the Company is considered strong and supportive of the dividend payment – with a Baa2 stable credit rating from Moodys, a stable regulatory gearing of 72% and a detailed long-term viability assessment that supports the Company's ability to fulfil its obligations up to 2032
- There are sufficient distributable reserves and available cash within the Company to pay such dividends
- Sufficient liquidity exists under 2022/23 budget, with financial ratios being met, to pay the final appointed dividend
- The shareholders remain supportive, ensuring the company acts in the public interest.

The dividends paid by the non-appointed business was £0.6m (2021: £0.6m). Dividends from non-appointed activities undertaken by the Company are determined based on the financial performance and prospects of these activities and their anticipated need for future investment.

The Board reviewed the above matters in the meeting, approving both the appointed and non-appointed dividend in line with the Company's dividend policy.

2022 27. Performance update

Overall performance for y/e 31/3/22

IC opened by providing the Board a summary of the performance in the year-to-date as detailed in his accompanying paper to the Board, noting the improved performance commitment performance since the prior year, and the significant achievements including Aptumo implementation and activities associated with improved financial resilience. DS noted the helpful summary in the Board pack, citing the clear challenge ahead for the Company in the customer experience area.

KT proceeded to provide an update on the Company's purpose and strategy work, in light of the recent Board discussions and pending PR24 long-term delivery strategy work, reviewing her accompanying paper presented to the Board.

ML challenged management on development of the Company's purpose statement, noting that while development of the underlying strategy work continues to progress, closure of the "headline" purpose statement was needed via the Board. RW also cited the need to simplify the messaging from her standpoint and ensure basic messages such as a reliable supply of high-quality water are not lost.

IC and KT noted the Board comments and agreed to reflect on such matters ahead of the July 2022 Board meeting, with JW also requesting that the Board understand the communication element of this work as part of the broader SESW communication plan.

Capex approvals

JG reviewed with the Committee 2 capital spend approval projects as documented in his accompanying paper – the final Aptumo close-out approval and the universal metering programme request for 2022/23, which the Board approved.

2022 28. Shareholder Update/AOB

KK also thanked management in advance for the upcoming senior Sumitomo management visit to SESW on 30 June 2022.

As AOB, TK noted the need to address the latest updates to the Water Resources Management Plan, based on recent regional plan reviews, with the Board, with a deepdive to be arranged in the coming months.

2022 29. CEO/NEDs private session

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

2022 30. Date of Next Meeting

Wednesday 20 July 2022

2022 31. Following the Board meeting, the Board approved the recommendation of the Nomination Committee to appoint RW as an independent non-executive director of SES Water with immediate effect.

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(Chairman)