

SES Water
Minutes of a Meeting of the Board Meeting
Wednesday 24 November 2021

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via MS Teams commencing at 11.30am

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	M Kusuno	MK	
	T Kelly	TK			
	K Thornton	KT	A Murphy	AM	(Item 69 only)
	J Gilbert	JG	F Heil, Atkins	FH	(Item 69 only)
	S Brown	SB	L Rawlinson	LR	(Item 70 only)
	J Omura	JO			

2021 63. Declaration of Interests

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

2021 64. Minutes

The minutes of the meetings held on 23 September 2021 and 25 September 2021 were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website.

2021 65. Matters arising and rolling agenda and 2022/23 Board dates

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

- The ongoing work with NERA to finalise the regulatory implications of the bulk supply agreement ahead of year-end.
- Confirmation that Ofwat has concluded on the recent Guaranteed Standards Scheme (GSS) payment investigation, with no further actions for the Company following appropriate settlement of outstanding payments to relevant customers.
- KT noted that work continued internally to schedule reviews of the remaining customer charter processes.
- IC noted the planned attendance of D Black at the February Board dinner and the progress being made on the required new non-executive appointment following upcoming JP/DS transition.
- The updated PR24 work and AMP 7 reforecast underway, with PK noting that a full AMP 7 reforecast would be presented in conjunction with the 2022/23 budget at the February BSD meetings.
- TK confirmed that lessons learned from various recent road scheme works, including the Tonbridge Road incident, were being considered ahead of the planning A22 resilience work.

The Board rolling agenda was noted, as were the dates for 2022 and 2023 Board and Committee meetings which were to be now diarised.

2021 66. Board Committee Reports

Nomination Committee

JP reported on the Nomination Committee, noting the following key points of discussion:

- Progress on the new non-executive director appointment (following DS transition to chair), with a recruitment agency now engaged.
- Status of the recruitment of the new Head of Communications and potential Head of Sustainability roles.
- The further discussion required in upcoming Nomco meetings to discuss succession planning for senior management and the executive.

Report from the Health, Safety & Wellbeing Committee

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

- The work performed internally, and with the external contractor and John Cordon (SESW external consultant), regarding the recent safety incident at Bough Beech (as detailed in HSW Committee minutes), noting the seriousness of the incident. The Board expressed deep concern regarding the incident and TK noted that further meetings with the contractor involved were pending, and an update would be provided at the next HSW Committee meeting. DS noted that the Board would also be provided with a debrief on lessons learned and next steps.
- A review of latest HSW statistics, recent associated safety campaigns, the implementation of the Occupational Health and Safety system and the ongoing Covid-19 senior briefings.
- The positive progress made on the HSW training, with an 81% completion rate to date on online courses.

Report from the Energy Strategy Committee

ML reported on the Energy Strategy Committee, noting the key points of discussion as follows:

- A review of power supply resilience matters across the company following the recent UK-wide energy cost issues. ML noted the low risk position for SESW in this regard consequent since the recent hedging of power costs over the AMP.
- The successful launch of the net zero carbon roadmap and positive comments from stakeholders.
- The consideration of net zero carbon associated capital projects. As detailed later in these minutes, further work is to be performed by ML and TK to conclude on the approved projects.

Report from the Governance Committee

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

- The pending reporting on financial resilience, service performance and the annual performance report review to be received from Ofwat, with an expectation that dividends and gearing levels will be a key focus on the former report following recent Ofwat discussions.
- The work being performed on Environmental, Social and Governance (ESG) metrics, with consideration of NED involvement (JW) at future ESH Committees.

Report from the Financing Committee

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

- The excellent progress made on resolving the sinking fund issue, changing covenant terms on the long-term bond to provide greater headroom going forward and the stabilisation of Moody's credit rating
- To maintain this rating, focus continues to be required on managing to the revised business plan targets.
- The status on future debt raising options
- The need to consider the impact of higher levels of inflation across the business, which will be discussed at the February BSD.

Report from the Audit Committee

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

- The Committee approved, and recommended to the Board, SES Water's interim report and accounts and the Keeping it Clear document. The Board approved these documents for publication.
- The request for delegated authority from the Board for completion of the 2022/23 tariffs (Water, Developer Services & NAVs) to ML and PK. Such delegated authority was provided, albeit ML noted that a separate discussion with the Committee may be required in early January prior to tariff publication.
- The update on non-financial assurance plans with Motts for the year.
- The work being performed on cyber security matters and training this year.

JP also noted the recent discussion at ESH Audit Committee level regarding the focus on achieving budgeted financial results for the year, and the work being performed with the shareholders on "levers" to potentially achieve such results without impacting operational integrity and commitments to performance targets.

2021 67. Ordinary dividend

PK reviewed with the Board the proposed payment of an interim ordinary dividend in November 2021 of £1.775m, (comprising £1.475m and £0.3m dividends from the appointed and non-appointed businesses respectively) in respect of the year-ending 31 March 2022 as detailed in his accompanying paper.

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

- overall, the Company's performance has been satisfactory in the first 6 months of the current year, to the benefit of its stakeholders, through the ongoing difficult circumstances of the pandemic, responding well operationally and consistently delivering high quality water to its customers.
- in the round, forecast performance for the year-ending 31 March 2022 is expected to be 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 will not be achieved this year this is not felt to materially detract from the expected overall acceptable level of performance for the year, with improvements from 2020/21.
- financial performance (based on unaudited forecast year-end results) is – at an operating profit level – expected to be in-line with budget at c£12.1m, although downward pressure from escalating supply costs may impact in Q4. Profit after tax (PAT) is expected to be significantly impacted by certain non-cash items in the year – namely tax rate changes, adverse RPI movements and the settlement of the sinking fund – which will reduce PAT to a loss of c£17m for the year. However, such financial performance at a PAT level is not expected to be representative of longer-term cash or profitability.
- 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.

In response to a question from JP, PK confirmed that dividends were calculated in accordance with the allowed rate of return as detailed in the PR19 Final Determination. PK also noted that – while Ofwat’s report on financial resilience had not yet been received – it was expected that further recommendations on explaining the Board’s decision-making process and considerations of dividend levels may be required across the sector, which will be considered in the 2021/22 Annual Performance Report (although the detailed explanation on dividend payments was made in prior year in the APR).

The Board approved the interim dividend based on the above points.

2021 68. Regulatory update

PK reviewed with the Board his accompanying paper on regulatory matters noting:

- The recent interactions with Ofwat, and the pending reports on financial resilience and service delivery, with an expectation of focal points regarding dividends and gearing.
- The ongoing PR24 preparation work including planning with CEPA, which is to be discussed in detail with the Board at the 9 December 2021 deepdive.

2021 69. Climate change adaptation

AM and FH then joined the meeting and – with TK – proceeded to discuss the proposed climate change adaptation report as detailed in the accompanying paper, noting in particular:

- The background to the adaptation report and the recommendation to provide DEFRA with this report – under the Climate Change Act 2008 – by 31 December 2021.
- The focus of the report on current and projected risks, mitigating measures to address such risks and case studies highlighting best practice.
- SES Water and Atkins’ programme approach, with details on internal and external engagement.
- A summary of SES Water’s key climate risks and causes, the understanding of underlying risks and the overall impact of such risks in terms of severity.

- The work performed to address Environmental Scrutiny Panel engagement in this area.
- Associated evidence underlying the assessment of risk and mitigation actions.

In response to a question from ML, FH noted the actions required to address key risks in further detail, agreeing with JP's comment that learnings from other water companies need to be considered going forward in response to such risks.

The Board approved the report for issuance to DEFRA following final delegated review by JW, but – in line with JW and DS requests – asked that this be converted into a “customer friendly” document (like Keeping it Clear) in early 2022 as part of the wider ESG reporting work.

AM and FH then left the meeting.

2021 70. Protective security strategy

LR joined the meeting and – with NH – proceeded to update the Board on the Company's protective security strategy as detailed in the accompanying paper, highlighting:

- The regulatory requirement for such a security strategy,
- The specific elements incorporated into the strategy, including emergency planning, security management and physical and personal security risk assessments.
- The overall aims of the strategy and the specific elements of the delivery plan, including actions from the recent security emergency direction audit.

In response to a question from JP, LR provided further details on the associated capital projects incorporated into the action points.

The Board thanked LR for her work in this area and approved the Protective Security Strategy. LR then left the meeting.

2021 71. Performance update

The executive team provided the Board a summary of the performance in the year-to-date as detailed in the accompanying Board report, noting:

- KT provided a detailed update on customer service matters, noting the latest customer service delivery metrics, the focus on post-Aptumo improvements, the “door-to-door” plans to tackle voids, the positive steps taken recently with respect to debt collection matters, the recent personnel changes in the Customer area and the focus on engagement with the CSP ahead of PR24. JP noted that separate time should be provided at future Board meetings to allow for a fuller update on customer related matters, especially in the light of the expected focus on C-MEX and D-MEX in the upcoming service delivery report from Ofwat.
- TK summarised the focus of wholesale on reducing network work-in-progress jobs and managing the on-going pressure on supply chain costs in light of the pandemic. Following DS's update on the Bough Beech HSW matter earlier in the meeting, TK confirmed that the external contractor had informed the Health & Safety Executive of the incident, although the latter were not intending to investigate further. TK also noted the focus on leakage over the remaining months of the financial year.
- NH noted that the DWI had received the report on the recent Westwood “boil” notice event with no queries received to date.

- In response to a question from ML, TK updated the Board of the recent sewage investigation by Ofwat and emphasised that this did not directly impact SES Water. PK noted this would be clear in the interim announcement and – at the request of ML – TK said that a brief report would be prepared for the Board on SES Water’s compliance with its own environmental permits.

Capex approvals

TK summarised the proposed capital expenditure items for Board approved as detailed in his accompanying paper. The Board approved the Billing CRM programme expansion and OneServe projects.

However, following discussion with ML, it was agreed that delegated authority be provided to ML to review and approve associated net zero carbon spend following further review of pay back periods and benefits of such spend.

2021 72. Shareholder Update

No other updates were noted from the shareholders.

2021 73. Any Other Business

No other business was noted.

2021 74. CEO/NED private session

All parties then left the meeting except for IC and the non-executive directors, who proceeded to conduct a private session.

2021 75. Date of Next Meeting

8 and 9 February 2022 (including Board Strategy Day)

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(Chairman)