

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

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via MS Teams commencing at 2.30pm

Present:	J Pelczer	JP	(Chairman)
	M Legg	ML	
	J Woods	JW	
	D Shemmans	DS	
	S Kitajima	SK	
	K Oida	KO	
	I Cain	IC	
P Kerr	PK		
In attendance:	N Houlahan	NH	
	T Kelly	TK	
	K Thornton	KT	
	J Gilbert	JG	
	D Lamb	DL	(Item 18 only)
	K Kageyama	KK	
	M Kusuno	MK	
	J Hayes	JH	(Independent Audit)

2021 11. Declaration of Interests

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

JP also welcomed KK on behalf of the Board, noting the transition arrangements in place with SK, including the Ofwat interview currently being arranged, and that the register of directors' interests would be updated in due course.

2021 12. Minutes and Board dates 2022

The minutes of the meetings held on 10 February 2021 were agreed and signed by the Chairman, with the summarised Board minutes approved for publication on website.

In addition, the Board approved the Board and Committee dates for 2022, which would then be diarised.

2021 13. Matters arising

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

Item 4 – Godstone and Redhill consents – TK confirmed that no further information has been received from the Environment Agency (EA) in respect of these consents, although the matters would be raised at the next quarterly meeting with the EA in early April.

Item 5 – Net zero carbon – TK noted that preparation of the Company's roadmap in this area continued following the publication of Water UK's associated roadmap, which would be reviewed via the upcoming Energy Strategy Committee.

Item 6 DWI status – NH provided a detailed update of the status of the recent DWI audits, noting that responses had been provided to date with respect to the audits.

Item 12 – Whistleblowing – IC confirmed that no whistleblowing matters had been raised since the last Board meeting. IC noted that – as part of the annual meeting with London Borough of Sutton (LBS) – the Company’s new LBS contact in that area had been updated earlier this month of softening matters.

Item 13 – Additional Wholesale matters – TK noted that the Company was on course to meet its leakage target for this year.

2021 14. 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:

- The deepdive by the Committee into the recent (non-fatal) safety incident (with a meter reader being struck by a vehicle), including the Company safety stand-down and the future risk assessment work in this area for all meter readers.
- The site assessments that were conducted across the Company following the recent Wessex safety incident, with all actions due for completion at the end of March.
- The reporting of Lost Time Incidents and Potential Hazards in the last quarter by management, including the effective use of the “stop” cards for 2 recent matters (a breaching of Covid-19 distancing measures and inadequate traffic management on a network job). DS noted the lessons to be learned in issuance and receipt of these stop cards across the business.
- The annual HSW calendar for the year was reviewed, which included completion of the recent external Health and Safety review actions (with 2 items outstanding for completion by the end of June).
- The consideration of recent Covid-related safety measures, with management focusing on potential “hybrid” working arrangements as lockdown starts to ease and a review of lone working arrangements.
- The implementation of the random testing as part of the updated Drugs & Alcohol policy.
- The positive use of the online training (iHasco) for HSW matters.
- The recent wellbeing initiatives being launched, including the “Step into March” initiative.

Report from the Nomination Committee

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

- The planned transition from SK to KK and related Ofwat interviews, planned for April with formal Board changes to be made on or prior to 1 June 2021. JP took the opportunity, on behalf of the Board, to thank SK for his support and constructive challenge over recent years as part of the Board, and wished him all the best for his future with Sumitomo.
- The Committee’s recommendation to the Board that ML serve a third and final term as senior independent non-executive director following the end of his second term in September 2021. The Board approved this recommendation, with a formal letter to be issued by JP on behalf of the Board. It was noted that ML had also agreed to serve as ESH Audit Committee chair, which the SESW Board agreed did not present any independence issues for the Company.

- The Board's approval that DS succeed JP as chair of the SESW Board in April 2022, extending his total tenure on the Board up to December 2024, subject to a "no objections" letters from Ofwat. JP noted with thanks the process conducted by ML on consulting with all Board members before reaching this decision.

JP also reminded the Board of the year-end performance reviews of independent NEDs currently being conducted, with feedback requested by 31 March 2021 to JP on DS, ML and JW, with ML conducting a similar process for JP's performance in the year. JP also noted the external Board effectiveness review underway, with Independent Audit observing this Board meeting, to be followed by series of questionnaires and interviews.

Finally, JP noted the upcoming independent NED discussions occurring in April on various Company matters, as part of the regular pattern for periodic meetings of the independent NEDs.

Report from the Remuneration Committee

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

- The review of current LTIP performance for the 2018, 2019 and 2020 plans, with final decisions on payouts and ring-fencing to be provided at the 1 June meeting.
- The approval and recommendation to the Board of the 2021/22 Executive Pay policy, which had been updated to reflect recent Ofwat comments on stronger linkage of measurement metrics to customer performance. The Board approved the 2021/22 Executive Pay policy for publication and issuance to Ofwat.
- The annual pay increases for employees (excluding senior and executive management) of 2% in line with the JNCC agreement.
- The plan for IC to complete the senior and executive annual pay and bonus reviews in April, with any annual pay increases to be backdated to 1 April 2021 and bonus recommendations (including all employees) to be taken to the 1 June Committee meeting for approval.
- The annual fee increases for NEDs of 2%, in line with the general employee increases – which were considered appropriate to maintain market rates.
- The review of current gender pays gaps and related actions, and the discussion of management's proposals for extended senior terms and conditions for certain individuals.

Report from the Pension Risk Management Committee (PRMC)

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

- The approval and recommendation to the Board of acceptance of the defined benefits pension scheme triennial valuation as at 31 March 2020.

Report from the Governance Committee

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

- The approval by the Committee and recommendation to the Board for issuance of the 2021/22 dividend policy. While no comments had been received on this actual policy following Ofwat's recent review, it was noted that – in line with Ofwat's review – the Board noted the need for transparency with respect to explaining the quantum and reasoning

behind any proposed dividends. The Board approved the 2021/22 dividend policy for issuance.

- The review of various actions being monitored by PK in light of Ofwat's review of governance matters and the status of Board and executive training sessions.

Report from the Audit Committee

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

- The alignment of management and PwC on key year-end judgements and estimates, primarily on bad debt provisions and the measured household income accrual.
- The focus on the tightening of financial controls across the Company, in particular with respect to implementation of the new billing system.
- The work to be performed over year-end with respect to the recent disclosure requirements on climate change matters and sustainability.
- The approval and recommendation to the Board of the Final Assurance plan with respect to Ofwat's Company Monitoring Framework (CMF). The Board approved the Final Assurance plan for issuance.
- The approval and recommendation to the Board of the latest update of certain Company policies, including the Company's Compliance Code, The Board approved such policies (as detailed in the minutes to the 24 March 2021 Audit Committee) for issuance.
- The positive progress on performance commitment assurance work with Mott MacDonald, although there was still work to be addressed here ahead of year-end.
- The good progress on systems resilience plans, with the commencement of the documentation of a reporting framework in this area.
- The latest cyber-security updates, noting that no issues had occurred during the recent external penetration testing.

2021 15. Regulatory update

PK provided the Board an update of recent regulatory matters as detailed in his accompanying paper, noting:

- The recent discussions with JP and Jonson Cox, for which a separate update had been provided to the Board. JP noted that he had raised the Company's concerns of the Per Capita Consumption (PCC) performance commitment in the light of Covid-19, with PK noting that it was clear from further correspondence on this matter that Ofwat were now consulting on moving the measurement of the incentives connected with this performance commitment to the end of the AMP.
- IC's recent meeting with Rachel Fletcher and David Black, which covered the transition arrangements within Ofwat, together with early thinking from Ofwat on matters such as net zero carbon funding in PR24.
- The recent Competition and Market's Authority final findings as issued in late March 2021. PK provided a summary of the key findings and implications for SESW to the Board.
- Management's recent interactions with Ofwat in preparation for the launch of the PR24 consultation process, and management's intent to discuss with the Board in June its PR24 planning process.

2021 16. Monthly Reports (January and February 2021)

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

- The overall positives with respect to performance in the year – despite the impact of Covid-19 – in areas such as recent progress toward the Aptumo implementation now scheduled for June 2021, leakage, the reduction of wholesale job backlogs, minimising the impact of weather-related activity, the recent wellbeing initiatives and the overall water quality performance.
- PK continued to review the overall status of 2020/21 regulatory performance commitments as detailed in the Board pack.
- NH noted the status of the DWI's compliance risk index, noting that the Company's performance expected to be in the top half of the industry.
- TK reviewed the wholesale-related PCs, noting in particular the expected softening penalty due to Elmer shut-downs and management's plans to address softening performance in the new financial year.
- KT reviewed the retail-related PCs, noting the expected penalty on voids. ML noted the need for a robust process of root cause analysis and reducing void levels given the wider implications for tariffs, bad debts and revenues.

KT provided a detailed review of recent Retail performance, noting the immediate focus on cash collections activity for Household customers, which included recruitment of appropriate resources, a re-targeted outbound calling campaign and a focus on minimising service level issues while performing the above work. JW emphasised that the above needed to be very cognisant of vulnerable customers, but that – overall – KT's focus needs to be on operational performance of Retail, with DL and JG focused on Aptumo deployment.

JP noted that - given the mixed performance in the year, especially with respect to retail related matters - the Annual Performance Report (APR) should be appropriately balanced at year-end within the chairman and CEO sections.

TK provided a summary of recent wholesale performance, noting the reduction of repair and maintenance backlogs, the recommencement from 12 April of customer-side activity, the focus on ramping up the metering progress again post-lockdown and the positive position of the Company's water resources.

TK also confirmed that – given the recent weather – there were no perceived risks for adherence to the Company's water extraction licences.

SB concluded by providing an update of the wellbeing initiatives, which have been considerable in the last 6 months, with:

- All company-wide wellbeing presentations being completed.
- The effective use of iHasco wellbeing training modules.
- The implementation of wellbeing groups within the business.
- The consideration being provided to dealing with potential long-Covid cases in the business.

JP noted the recent "Walk for WaterAid" initiatives being implemented elsewhere, which SB noted she would take into consideration for future wellbeing initiatives.

2021 17. Capex approvals

TK reviewed with the Board his accompanying paper on capital expenditure approval, for the following areas:

- OneServe programme extensions.
- Metering programme.

- Lead replacements.
- Intelligent DMAs.
- DMA Asset health.
- Enhanced Pressure management.
- District Meter and Pressure releasing valve (PRV) renewals.

The Board agreed on these required and “no regrets” expenditures and approved the requested expenditures, noting that a revised AMP 7 capex programme would be presented in June.

2021 18. Transformation programme update

CRM/Billing programme

DL joined the meeting and reviewed with the Board the accompanying paper on the Aptumo programme.

CMEX

KT reviewed the latest status of CMEX priority plans with the Board, including progress against the 7 main workstreams as identified in the accompanying papers, with a current focus on the “fix the problem/complete the job” workstream, to fully understand the drivers behind the recent impacts to customer satisfaction scores and address them through customer communications and improved journey plans.

Wholesale and Developer Services

TK reviewed with the Board the status of the “Incumbent wholesalers and effective markets” action points, which had arisen following Ofwat’s letter in prior year requiring the Company to address gaps in support for these retail markets.

As noted in the paper, TK cited recent successes, including the improved developer services and new appointments and variations charging documents now available on the Company’s website, together with the progress made by the new wholesale and developer services manager to rebuild the team and improve reporting in this area.

Digital

JG provided the Board with an update on various initiatives under his remit in the digital space, following on from the recent Board Strategy day presentations. JG noted that – at minimal cost – a scalable cloud-based data platform had been implemented, and – as noted in his budget – a data lead and engineers has been recruited.

Following questions from the Board, JG noted that he would update at the next Board meeting – in non-technical terms – what is being achieved through this work, overall benefits, timelines and ultimately what can be delivered for the company and customers from this work.

2021 19. Shareholder Update

SK thanked the Board and executive team for all the support and collaboration over the recent years during his tenure on the Board, noting how proud he was to work with the Company and wishing all Board members and employees every success in the future.

2021 20. Any Other Business

No other business was noted.

2021 21. Date of Next Meeting

Tuesday 1 June 2021

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(Chairman)