

SES Water
Minutes of a Meeting of the Board
Wednesday 20 November 2019
in the Sumitomo's office, 4th Floor, Vintners' Place,
68 Upper Thames Street, London EC4V 3BJ
commencing at 12noon

Present:

J Pelczer	JP	(Chairman)
M Legg	ML	
D Shemmans	DS	
J Woods	JW	
S Kitajima	SK	
A Ferrar	AF	(Managing Director)
P Kerr	PK	

In attendance:

N Houlahan	NH	
T Kelly	TK	

D Lamb & D Roberts	DL, DR	(Item 96 & 97 only)
S Lambert	SL	(Item 98 only)
J Corden	JC	(Item 99 only)

Absent:

K Oida	KO	
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			Action Points
2019	85.	Declaration of Interests	
		JP reminded the Board to continue to update PK of any changes to the register of directors' interests. No further updates were noted to the current register as attached in the papers for this meeting.	PK
2019	86.	Minutes of Previous Meetings	
		The minutes of the meetings held on 26 September 2019 and AGM minutes were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website.	PK
2019	87.	Matters Arising	
		PK reviewed the matters arising with the Board, noting in particular:	
		<ul style="list-style-type: none"> • Environmental Scrutiny Panel (ESP) – TK updated the Board on progress on the formation of the ESP, reviewing the terms of reference and progress on assigning a chair for the panel. The Board requested to be updated in February of progress with inaugural meeting of the panel, which is targeted for April 2020. 	TK
		<ul style="list-style-type: none"> • Item 74 Board powers paper – PK said that this paper was being finalised subject to comments from ML on unbudgeted operating costs governance levels. 	PK
		<ul style="list-style-type: none"> • Item 75 Woodmansterne internal safety investigation – TK and DS confirmed their completion of this investigation (referring to complementary Board paper), noting to the Board that appropriate actions have been taken with relevant individuals and that the recommendations would be separately tracked within the overall Health & Safety action matters to be discussed later in the Board 	TK

meeting. Updates on progress against the action plan to be provided at future Board meetings until all recommendations have been completed.

- Item 78 Customer Transformation Programme Board - AF noted that JW has continued to interact with the Programme Board, himself and DL on a regular basis.
- Item 79 – Programme 20 cost and benefit analysis – TK noted that this would be provided in December following further work with the Programme 20 team and finance.
- Item 82 Drought plan – TK reviewed with the Board the Borehole Health and Utilisation update paper, noting in particular the continued monitoring of both the Well House Inn and Rose & Crown reference boreholes. TK agreed to update the language in the interim statements to reflect current status of SESW's water resources. TK confirmed that given above average rainfall in the autumn to date, continued average winter rainfall levels from now through to end March 2020 should allow sufficient replenishing of water resources to enable the Company to meet typical spring and summer demand in 2020.

TK

TK

2019 88. Report from the Nomination Committee

JP reported to the Board on the Nomination Committee meeting, noting:

- The review of annual succession planning for all members of the senior management team.
- The progress with announcement of the new CEO. JP said that an announcement of the new Group CEO would be made ahead of or by 6 December, and that both JP and PK would be meeting with the new CEO on 12 December as part of his transition.

2019 89. Report from the Remuneration Committee

DS reported to the Board on the Remuneration Committee meeting noting:

- The discussion of executive and senior management bonus framework going forward, which AF will progress and action.
- Remuneration matters associated with AF's retirement, which HR and Finance will process.

PK

2019 90. Report from the Governance Committee

ML noted the matters reflected in PK's Governance Committee papers, in particular the progress on a specific set of actions arising from the recent Board Effectiveness review.

2019 91. Report from the Audit Committee

ML reported to the Board on the Audit Committee meeting, noting:

- The review and approval of the Chairman's statement and interim financial statements by the Committee, following detailed review of management's judgements and estimates, analytical review of movements in key balances, bond covenant levels and going concern matters. The Board approved the Chairman's statement and interim financial statements for issuance, with delegated authority provided to JP to finalise the Chairman's statement and ML to finalise the interim financial statements, prior to issuance on 29 November.
- The on-going regulatory work with respect to water and developer services tariffs, with the Board providing delegated authority to ML to review and approve final tariffs for issuance in January 2020. ML noted

JP/ML

that a written update would be provided to the Board at time of issuance of such water and developer services policies and tariffs, absent any significant matters which would require a Board call.

- Review and approval of the Risks, Strengths and Weaknesses Statement and Draft Assurance Plan by the Committee, which are associated with Ofwat's Company Monitoring Framework. The Board approved such documents for issuance.
- Other matters reviewed by the Committee, including PwC's 2019/20 audit plan, progress on finance transformation, the interim review of the risk registers and the future plans on both Information and Operational Technology cybersecurity matters.

PK

2019 92. Report from the Energy Strategy Committee

ML reported to the Board on the recent meeting of the Energy Strategy Committee, which meets 2 to 3 times per year. ML noted:

- The Committee's review of energy purchasing strategy, in particular the focus on price-associated trigger levels that dictate when to purchase. The Board agreed that an update on overall energy strategy (including the energy purchasing policy) would be beneficial as part of the February 2020 board strategy day.
- Other topics included actions being considered to meet the 2030 sector wide carbon neutrality targets, progress on electric vehicle roll out and large scale solar, together with energy efficiency plans across the treatment sites.

TK

2019 93. Reputational update

AF reviewed with the Board the Reputational update paper, highlighting the following points:

- Southern Water matters – PK noted that, in response to Rachel Fletcher's letter earlier in the year on consideration by all companies of Ofwat's investigation into Southern Water, a detailed action plan had been developed which would be a standing item for each Board meeting.
- Nationalisation – AF will circulate the latest Water UK paper on this matter.
- Social mobility pledge – the Board noted positively the progress made to date by the Company in this area, including the recent Industrial Cadets programme.
- Water softening – AF discussed with the Board the recent discussions with London Borough of Sutton on the Company's softening obligations, as part of Ofwat's finalisation of the proposed PR19 performance commitment and delivery incentive associated with the Company's softening operations.
- NH noted that the monthly Board performance reporting from January 2020 onwards will include softening performance per site.

2019 94. PR19 update

PK updated the Board on preparations for receipt of Ofwat's Final Determination on the Company's Business Plan on 16 December 2019. PK noted that limited communications had been received via Ofwat's Q&A process since the last Board meeting, with management in the process of arranging internal and external resources (including econometric and legal support) for post Final Determination work.

The Board noted such preparations and that a Board conference call had been arranged for 18 December to discuss initial views of the Final Determination.

2019 95. Ordinary dividend

PK discussed with the Board the proposed payment of an ordinary dividend in December 2019. The Board reviewed and debated the following matters in their consideration of payment of this budgeted dividend, with a focus on forecast performance for 2019/20:

Overall level of service delivered to customers, compliance with statutory obligations and progress with delivery of regulatory and other obligations.

- The Board noted the consideration of 2019/20 forecast performance as detailed in section 3.2 of the accompanying Board paper, noting that on balance the majority of the Company's commitments to customers were forecast to be met in the year.
- In particular, the Board noted the continued excellent performance of water quality and taste, odour and discolouration results in the year, and that management were managing water resource matters effectively for customers (with leakage forecast to meet budgeted levels and no supply restrictions in the year-to-date or imminent, based on expected normal levels of winter rainfall). The Board also commented on the forecast outperformance of the Company's target for the number of customers to receive social tariff assistance in the year.
- The Board did comment on certain customers metrics not reaching the stretching targets of the company – such as in the area of complaints, but that overall the Company had on balance delivered key customers commitments and were forecast to do so for the full year.
- ML also noted that – as detailed in the paper – the shareholders, over the course of the AMP, were provided with lower dividends than budgeted as part of the PR14 determination, reflective of the fact that the company has not met its regulatory SIM targets over the AMP with respect to customer service levels.
- The Board also noted that the ongoing compliance of the company with its statutory and other regulatory obligations.

Financial performance against regulatory assumptions and internal targets.

- The Board noted that forecast financial performance continues to be in-line with budget for the year, that bond covenant compliance targets continue to be met and that the Company had the financial ability to pay the proposed dividends in terms of distributable reserves and cash balances.

Taking into account the above matters, the Board approved payment of an ordinary interim dividend for 2019/20 of £3.4m from the Company (of which £0.3m will be from the non-appointed business and £3.1m from the appointed business). PK

2019 96 & 97 Customer Transformation Programme, including CRM/Billing project deepdive

DL and DR joined the meeting and reviewed progress of the Customer Transformation Programme, with a focus on the CRM/Billing project.

DL & DR then left the meeting.

2019 98. Water Safety Plan

SL joined the meeting and presented to the Board on Drinking Water Safety Plans (DWSPs) as detailed in the accompanying presentation. In particular, SL noted:

- The process for assessing risk and verifying control measures associated with the Company's DWSPs.
- Specific examples of such risk assessments and associated reporting.
- The current focus by his department on accreditation of such DWSPs and technological improvements to the excel based files.

SL noted that – from his extensive experience across the sector – the Company's DWSPs were among the best quality that he has reviewed, and continue to play a key part in achievement of the excellent water quality results that continue to be delivered by the Company.

The Board thanked SL for his presentation and continuous hard work in this area, and NH noted that progress would be provided to the Board on accreditation and technological improvement matters in March 2020. SL then left the meeting.

NH

2019 99. External Health & Safety report

JC joined the meeting to discuss with the Board his recent external review of the Company's Health and Safety systems and their current implementation by management.

JC took the paper as read, and highlighted the following items:

- The 22 recommendations in the report, while they require management to prioritise and implement, were not of an unexpected nature from JC's experience with similar companies.
- In particular, JC pointed out that the appearance of the Company's treatment sites were the best he has seen in the industry.
- However, the recommendations in the report need to be messaged at the ground level up, so that all employees of the Company can focus on safety improvements to be made by the Company, and that the recommendations do not just sit at senior management or Board level.

The Board thanked JC for his comprehensive report, and requested that management:

- Communicate with the full workforce the results of the report and on-going focus areas. TK proposed that this be performed via the Company's Health, Safety and Wellbeing Committee, who can aid in wider dissemination of these messages.
- AF to communicate with those individuals who partook in the report with JC to feedback on their input and to update them on the Board review and acceptance of all recommendations and that an action plan is being prepared and will be shared to ensure compliance with the report's findings.
- Convert the 22 recommendations into a prioritised action list to be monitored at Board level, appending specific Woodmansterne investigation actions on that monitoring report.
- In response to a recommendation from JC the next external review would be decided as part of the above action plan.

AF

JC then left the meeting.

2019 100. Format of Board Strategy Day (BSD) on 11 February 2020

AF reviewed the accompanying paper on the proposals for the BSD in February 2020. JP noted the potential to work to 1½ days for strategy matters and ½ day for ordinary Board business on 11 and 12 February, in addition to ensuring time prior to dinner with the external guest. DS noted that the company KPI target setting discussion can be removed from the draft agenda, but time should be provided for a health and safety update. AF and PK noted these matters, and an updated agenda will be circulated for approval.

AF/PK

2019 101. Programme20

TK provided a brief verbal update of Programme 20, noting in particular the progress on first time reinstatement as covered in the recent monthly board reports.

2019 102. Monthly Reports (September 2019)

The Board proceeded to review and discuss with management the latest monthly performance report, with the following items noted:

- Complaints forecast – AF noted that progress has been made recently on addressing the root causes of complaints, with complaint levels now at a four-year low of just 4.67 per 1000 properties per annum. However, the complaints received earlier in the year, primarily related to a significant road closure to carry out essential mains repair works, have meant that the stretching target of 6.60 complaints per 1000 properties per annum would not be met. Deep dives on complaints reporting will continue in the monthly Board reports.
- Meters/PCCs/leakage – TK updated on the positive progress to achieve targets in these areas, noting in particular for leakage that the nightline was now available and activity levels to hit our leakage target were being closely monitored. TK confirmed that, assuming average winter conditions through to end March 2020, we expect to remain within our 2019/20 leakage target.
- AMP 6 penalties – PK confirmed that the net adjustment for totex under performance and ODI penalties would be considered in the PR14 reconciliation process (no immediate financial impact in 2019/20) and would be reviewed as part of the February BSD.
- Pollution investigation – NH confirmed that the investigation into the pollution incident in July 2019 noted in the Board report was on-going with the EA and would be monitored for any updates prior to release of the interim financial statements.
- Brexit – TK confirmed ongoing work across the sector continued to be working well, with requisite chemical stock levels increased again pending any Brexit decision.
- Health, Safety and wellbeing update – NH noted that the pending October management report will show a deteriorating set of health and safety statistics given 2 recent RIDDOR incidents.
- Capital programme – PK noted that capital expenditure levels continue to be monitored against budget level given sensitivity of March 2020 covenant ratios. TK also noted that take-over tests at Woodmansterne were expected to commence at the start of December.

NH

TK

Wholesale PADs

TK reviewed with the Board the requested capital approvals for the following items, as documented in the accompanying papers, which were noted as within 2019/20 budget levels. The Board approved all three requested items:

- Headley Pumping Station Refurbishment.
- Developer Services Mains Requisitions.
- DMA Asset Health Check Phase 2 and Intelligent Networks Phase 1 & 2a Roll-out.

The Board requested a demonstration of the DMA intelligent networks system at the February or March 2020 Board meetings.

TK

2019 103. Shareholder Update

SK noted to the Board the continued importance of the People Strategy for the company, complimenting management on the quality of presentations and papers in the Board meeting, but emphasising the need in the February BSD to provide an indication of the sustainable headcount numbers and people development.

SK also noted the 100-year anniversary of Sumitomo Corporation in December, with the Board offering their congratulations and best wishes for the Sumitomo Corporation and its employees.

2019 104. Any Other Business

There was no other business.

2019 105. Date of Next Meeting

The next meeting will be held on Wednesday 12 February 2020, at Nutfield Priory Hotel.

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(Chairman)