

**SES Water**  
**Minutes of a Meeting of the Board Meeting**  
**Wednesday 23 November 2022**

**Held in the Boardroom, Redhill and via MS Teams**  
**commencing at 10.30am**

<b>Present:</b>	D Shemmans	DS	(Chair)
	M Legg	ML	
	J Woods	JW	
	R Wiles	RW	
	K Kageyama	KK	
	K Oida	KO	
	P Kerr	PK	
<b>In attendance:</b>	T Kelly	TK	
	N Houlahan	NH	
	K Thornton	KT	
	J Omura	JO	
	E Prince	EP	
	D Lamb	DL	
	C Murray (WRSE)	CM	(Item 61 only)
	M Gough (WRSE)	MG	(Item 61 only)
<b>Absent:</b>	I Cain	IC	

**2022 54. Declaration of Interests**

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

**2022 55. Minutes of Previous Meetings (including website minutes)**

The minutes of the meetings held on 28 September 2022 including AGM minutes were agreed and signed by the Chair, with summarised Board minutes approved for publication on website.

**2022 56. Matters Arising and rolling board agendas and 2024 Board dates**

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

- Environmental compliance - TK confirmed that SES Water was compliant with all their environmental and abstraction licences and requirements.
- Reservoir cleaning – TK noted the status of the company's reservoir cleaning programme, with the Board noting – in the DWI update – the plans for the 3 sites which have not been cleaned or had a structural integrity check in the last 10 years. At the request of DS, TK confirmed that an update on overall cleaning programme, including issues identified and any resolution plans, would be provided at the next Board meeting.
- WRMP review – TK noted the previous deepdive with the Board prior to issuance of the company's draft WRMP, noting that not all companies in the region were able to launch their draft WRMPs and consultations on time following Defra's initial security review. The Board would be kept apprised of the feedback on SES Water's consultation.

- DWI status – NH noted overall status of audit and other DWI matters as detailed in her accompanying paper, noting that responses to various recent inspections – including Westwood – were still pending.
- Ringfencing consultation – PK confirmed issuance of the response to Ofwat’ ringfencing consultation as covered in the Financing Committee.
- Customer charter – ML noted the good progress in this area following recent work from KT’s team, although KT said that closure of the recently identified GSS anomalies was still to be performed – and Ofwat and the Board would be updated on or before the February 2023 meeting.

PK noted the other outstanding matters arising – with respect to people matters and regulatory forecasts – were covered in the agenda for today.

## 2022 57. **Board Committee Reports**

### Report from the Governance, Financing and Pension Committees

ML reported on the recent Governance, Financing and Pension Committees, noting the key points of discussion included:

#### Governance Committee

- The 2022/23 edition of “Keeping It Clear” (KIC) was planned to be published in December 2022/January 2023, pending receipt of Ofwat’s pending performance reports and review the Company’s 2022 APR, when the Board would be provided an updated draft for review.
- An internal Board effectiveness review would be conducted for 2022/23, with support from LT and SB.

#### Pension Risk Management Committee

- The stability of the defined benefit scheme in light of the recent Liability-Driven Investment issues arising from the government’s mini-budget.
- The reinvigoration of the potential buy-out of the defined benefit scheme following recent actions by the scheme trustees, with further updates – and timelines – expected in early 2023, and the work to be performed by management to be ready of such a transaction

#### Financing

- The recent discussions with Ofwat regarding the ringfencing consultations, and implications for the Company, with ML noting that dialogue in these areas would continue.
- The positive result of affirmation of the Company’s credit ratings for 2022, and on-going dialogue with Fitch to replace S&P given the methodology issues with the latter.

### Report from the Audit Committee

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

- The Committee approved, and recommended to the Board, SES Water’s interim report and accounts. The Board approved these documents for publication.
- The request for delegated authority from the Board for completion of the 2023/24 tariffs (Water, Developer Services & NAVs) to ML and PK. Such delegated authority was provided, albeit ML noted that a separate discussion with the Committee would be required in early January prior to tariff publication given the expectation of tariff increases when final inflation numbers are available.

- The focus on key audit matters ahead of year-end – including revenue reconciliation work and bad debt reviews.
- The update on non-financial assurance plans with Motts for the year.
- The excellent work being performed on cyber security matters, including recent penetration testing and a refresh of Operational Technology (OT) security matters

DS noted that the minutes from the Health, Safety & Wellbeing, Energy Strategy and ESG Committees was taken as read, with the Board noting no further comments in these areas except of the Energy Strategy Committee, where it was noted that RW would join the Committee and the next meeting would occur in March 2023 to consider latest energy pricing and purchasing strategies.

## **2022 58. Ordinary dividend**

PK reviewed with the Board the proposed payment of an interim ordinary dividend in November 2022 (of £1.76m, comprising £1.46m and £0.3m dividends from the appointed and non-appointed businesses respectively) in respect of the year-ending 31 March 2023.

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

- overall, the Company has performed well in the first 6 months of the current year, to the benefit of its stakeholders, with solid operational performance, managing effectively through the summer drought conditions, improving C-MEX scores and consistently delivering high quality water to its customers.
- in the round, forecast performance for the year-ending 31 March 2023 is expected to be good 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. (c64% of forecast PCs expected to be met in 2022/23 vs 60% in 2021/22).
- while all performance commitments are not forecast to be achieved this year this is not felt to materially detract from the expected overall solid performance expected for the year.
- financial performance (based on unaudited forecast year-end results) is – at an operating profit level – expected to be c£8m below budget at c£10.1m, partly due to considerable downward pressure from escalating supply costs, high network activity, lower NHH volumes and bad debt. Profit after tax (PAT) is expected to be significantly impacted by certain non-cash items in the year – adverse RPI movements – which will reduce PAT to a loss of c£17m for the year. Such financial performance at an operating profit level is not expected to be representative of longer-term cash or profitability, with a clear improvement in profitability in 2023/24 due to revenue recovery.
- there are sufficient distributable reserves and available cash within the Company.
- sufficient liquidity exists under 2022/23 budget, with financial ratios being met.
- the shareholders remain supportive, ensuring the company continues to act in the public interest.

PK confirmed that dividends were calculated in accordance with the allowed rate of return as detailed in the PR19 Final Determination. In addition, DS noted that the Board has duly considered the balance of customer and employee support during the current cost of living crisis and – in the round – believed that the dividend proposed demonstrated constraint and appropriate balance. 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 despite the additional information provided in the 2021/22 Annual Performance Report (APR).

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

## **2022 59. Regulatory and performance update**

### Overview

PK noted that the monthly performance report was taken as read, and invited comments/questions from the Board, with the following points being noted from that discussion:

- In response to a question from ML, TK confirmed that work was progressing on addressing Ofwat's concerns on the water balance calculation (as part of overall leakage PC), with an external party being contracted to aid in the review ahead of 2023 submission. Dialogue was ongoing with Ofwat, and an update would be provided to the 8 February 2023 Board
- PK – in response to a questions from ML – noted that a separate review of the proposed upgrade to the financial system (NAV) would be discussed with IC and ML to ensure the robustness of the associated business case and that disruption to ongoing business was minimised given the current pressure on resources.

### People/Customer

SB and KT reviewed with the Board their accompanying presentation on attracting and retaining the right people resources for the customer services area of the business, in responses to previous focus by the Board in this area. This included a review of retention data, people related challenges and proposals on training and working arrangements.

DS noted that while the information discussed was noted by the Board, consideration was needed going forward on specific asks of the Board in this area, as part of the overall delivery of performance commitments across the business, especially in relation to C-MEX and D-MEX.

Generally, DS noted the required focus on closure of outstanding matters for management from an overall business perspectives so sufficient time could be dedicated to pending matters related to PR24 and other business priorities.

### WINEP presentation

NH reviewed with the Board her accompanying presentation on PR24 Water Industry National Environment Programme (WINEP) schemes for the company, noting:

- The status of the AMP 7 WINEP work
- The process for identification of PR24 WINEP schemes
- The PR24 proposed investigations and schemes for the Company, including the significant eels-based scheme work.
- The proposal to submit this initial view on AMP 8 work to the EA for 30 November deadline, inclusive of this initial review with the Board

ML noted that further information would be required by the Board prior to this initial sign-offs, including further detail on the business cases and prioritisation work performed to derive the initial list of schemes, the

alignment to our long-term ambition and those clear statutory drivers for the work. In addition, some of the terminology contained in the proposal would need clarification into plain English for the Board. NH agreed to provide a further update ahead of the 30 November submission date.

Capex approvals

TK reviewed with the Board the two capex authorisation documents contained in the Board papers – for resilience upgrades to the Burgh Heath and Langley Park pumping stations – which the Board approved.

Regulation & Financial (including AMP7 update)

PK reviewed with the Board the latest Q2RF financial forecast and plans for updating the AMP 7 forecast in line with proposed 2023/24 budget at the 8 February 2023 Board meeting.

**2022 60. Shareholder Update**

No further updates from the shareholders.

**2022 61. WRSE update – Chris Murray (WRSE Chair) and Meyrick Gough (WRSE CEO)**

CM and MG joined the meetings, and provided a WRSE update as detailed in their accompanying presentation, including a review of:

- The regional planning work to date and overall plan process, status and deadlines
- The specific challenges for the Southeast region
- Use of adaptive planning in the work – and alignment to further LTDS adaptive planning work
- The implications for SES Water and options being proposed.
- Next steps, including consultation and alignment to Ofwat deadlines

DS led the Board in thanking CM and MG for their update, with the Board discussing throughout the presentation key aspects of the work – including the prioritisation work performed by WRSE, the level of interaction across the various regions, their views on the options proposed by SES Water and the details of the planning process.

CM and MG then left the meeting.

**2022 62. CFO/NEDs private session**

A private session was held with PK and the NEDs.

**2022 63. Date of Next Meeting**

7 & 8 February 2023 (including Board Strategy Day)

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(Chair)