

SES Water
Minutes of a Meeting of the Board Meeting
Wednesday 9 February 2022

To be held at Nutfield Priory Hotel, Nutfield, Surrey RH1 4EL and via MS Teams commencing at 1.15pm

Present:

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

In attendance:

T Kelly	TK	
K Thornton	KT	
J Gilbert	JG	
S Brown	SB	
E Prince	EP	
T Peacock-Bjurstrom	TPB	(Item 6 only)

Absent:

N Houlahan	NH	
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2022 1. Declaration of Interests

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

2022 2. Minutes of Previous Meetings (including website and AGM minutes)

The minutes of the meetings held on 24 November 2021 were agreed and signed by the Chairman, with summarised Board minutes approved for publication on website.

KT provided the Board with an update on click-rates on the website page for the minutes, with it being noted that such published minutes were being actively viewed, which the Board strongly welcomed.

2022 3. Matters Arising and rolling board agendas

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

- Environmental compliance – TK confirmed that the Company remained in full compliance with the ongoing environmental and abstraction licence requirements as outlined in his comprehensive summary memo issued to the Board prior to Christmas. This matter will remain a standing action point for forward Board meetings to either note or otherwise address any actions arising if circumstances should change.
- DS noted that the lessons learned from the recent Bough Beech safety incident would be covered in his Health, Safety and Wellbeing (HSW) Committee report.
- KT noted that discussions with TK continued on next steps to assess any Customer Charter compliance matters arising from the remaining customer charter items not covered in the prior PwC and internal audit review.
- PK noted that LT was in the process of diarising 2022/23 Board dates.

2022 4. Board Committee Reports

Report from the Health, Safety & Wellbeing Committee

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

- No changes to the terms of reference.
- The discussion at the Committee of the recent contractor HSW incident at the Bough Beech treatment works, which had been raised to Water UK to aid lessons learnt and wider industry knowledge. DS confirmed there was no further update on the injured party and noted internal reviews proceeding at the contractor level.
- Four non-lost time incidents, primarily linked to use of inappropriate equipment.
- The successful launch of the new HSW management system.
- Ongoing Covid-19 weekly executive and senior management sessions.
- Financial wellbeing initiatives being implemented by the Company.
- Positive uptake of the iHasco online training modules.

Report from the Nomination Committee

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

- Positive progress on the non-executive director (NED) recruitment process.
- Finalisation of NED fee arrangements arising from JP and DS transition.
- Next steps on the executive and senior management succession planning work.

2022 5. 2022/23 Budget

EP and PK reviewed the proposed 2022/23 budget with the Board as detailed in the accompanying paper, noting:

- The latest Q3RF PAT position, with operating profit forecast to meet budgeted levels given the opex “levers” pulled in recent months and specific one-off benefits realised, but with a note of the revenue (volumes) risk associated with the Q3RF.
- TK noted the timing of capital expenditure between 2021/22 and 2022/23, with lower spend in the current year not having a detrimental impact on performance commitment delivery of the AMP.
- DS noted that - due to significant non-cash impact from tax rate changes and indexation – disclosure in the annual performance report this year would need to very clear of that position against dividend and tariff changes.

EP continued to review the proposed 2022/23 budget with the Board, noting:

- Adherence to key financial ratios and bond covenants.
- The key revenue, operating and capital expenditure assumptions underpinning the budget, with EP noting the inflation, PR24 and bad debt assumptions included within the budget.
- The assumed appointed dividend levels in the 2022/23 budget, with PK noting that these were calculated in accordance with Ofwat’s required rate of return for AMP 7 and would be subject to review in due course against actual customer and financial performance criteria. The

Board noted that, following on from the 2021/22 forecast results, the budgeted PAT for 2022/23 was significantly below the PR19 Business Plan.

- PK noted that further work would be performed as part of year-end on the balance between non-appointed and appointed dividends.
- JP noted the transfer of base-rate interest calculations from LIBOR to SONIA, with EP saying that she would provide JP with further information on this process.
- The detailed risk and opportunity schedule attached to the budget, with EP noting the specific actions that management required to take to ensure budget was met, including revenue protection, commercial settlement and bulk supply agreement actions.
- The expected movements in full time employee figure in the year, with the Board noting the focus on achieving a “sustainable” headcount.
- DS requested greater clarity on exiting performance commitments for 2021/22 and actions required to achieve 2022/23 performance commitments, which IC would be provided at the March 2022 Board meeting – including CMEX, voids and DMEX.
- The Board noted that for prudence CMEX and DMEX penalties were provided in the budget. However, the Board were clear that this should not signal that a penalty outcome was acceptable or indeed inevitable and that the actions in hand, noted later in these minutes, to improve CMEX and DMEX would be very closely monitored.

The Board approved the 2022/23 budget and thanked EP for her hard work and presentation.

DS noted that – consistent with approval of the ESH Group budget and the related action point at the Board meeting, in accepting this 2022/23 budget, management are requested to consider plans for achieving the budget in light of further potential increases in inflation in the UK which – together with higher operating costs and investment via increased headcount – will put further pressure on performance, profits and associated dividend levels. PK and EP noted that management would work with JO on this request and provide updates as part of the monthly ESH Board packs in 2022/23.

2022 6. Performance update – Customer and Business Markets

TPB joined the meeting.

KT provided the Board an update on customer matters, with a focus on CMEX, noting:

- Recent CMEX results and insight gained to date by the team.
- Key focal points from the CMEX plans to date, status of outbound calling plans, specific data gather from recent challenging calls and the tactical improvement plans in place as detailed in the accompanying slides within the Boardpacks.
- Recent resource changes being embedded in her team to improve process and gap issues noted from the CMEX analyses.

DS emphasised the need not only to improve the CMEX position in the context of overall customer service, but also for the reputation of the company and pride of the employees.

ML also requested that the above clarity of reporting be provided for debt matters as well – in terms of the impact of cash collection work on year-on-year levels and categories of debt. JP agreed with this request, noting that other pre/post Aptumo go-live KPIs be incorporated into the metrics to be presented across the customer area.

TPB provided an update on business markets work, focusing on steps being taken to improve the D-MEX position of the Company, noting:

- The recent industry position after the first half-year for the Company and implications for the D-MEX regulatory penalty. TPB highlighted the large scale of improvement for SESW in this regard.
- The current delivery challenges facing the team, including resource and date issues, and the actions being taken by the team to address such matters.
- The positive messages from the recent employee engagement survey for his team and the leadership lessons to be learnt.
- Future focal points, including account level performance metrics and system planning tools to proactively manage the order book.

JP requested TPB provide an update in each monthly board pack of his focus points and TK also noted that the updated action list in response to Ofwat's previous business markets letter would be provided at the March Board meeting

TPB then left the meeting.

2022 7. Other matters from December 2021 report

Other performance matters

JP and ML noted the following matters in relation to the monthly performance report:

- A request in the next Board meeting to discuss progress on WINEP related matters in relation to river and chalk stream management
- An update on social tariff forecasts and implications for 2021/22, including the actions being taken in light of the recent internal audit on social tariffs.
- An introductory pack for the new NED on performance and regulatory matters.

2022 8. Shareholder Update

No further matters were raised by the shareholders.

2029 9. CEO/NEDs private session

All attendees left the meeting with the exception of IC and the NEDs for their private sessions.

2022 10. Date of Next Meeting

Wednesday 23 March 2022 at Bough Beech Education Centre (pending Covid-19 restrictions)

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(Chairman)