

SES Water
Minutes of a Meeting of the Board Meeting
Tuesday 2 June 2020

To be held at SES Water, 66-74 London Road, Redhill RH1 1LJ and via Microsoft Teams commencing at 1.30pm (Briefing with Jo Causon at 12.45pm)

Present:	J Pelczer	JP	(Chairman)
	M Legg	ML	
	D Shemmans	DS	
	J Woods	JW	
	S Kitajima	SK	
	K Oida	KO	
	I Cain	IC	
	P Kerr	PK	

In attendance:	N Houlahan	NH	
	T Kelly	TK	
	J Causon	JC	(Item 35 only)
	D Lamb	DL	(Item 43 only)

2020 35. Briefing with Jo Causon, CEO of Institute of Customer Service

JC joined the Board and discussed various aspects of The Institute of Customer Service's (the "Institute") background, ethos and current focus areas, highlighting:

- The Institute's connections with the Water Sector and its wider membership.
- A focus on customer service for trust, reputation and financial benefit, and the return on investment such a focus can yield.
- A view of customer service in 2020 across the UK and the key measurements methods employed by the Institute to score organisations.
- Sector-best performance examples and the reasons behind their ranking.
- Key attributes of customer satisfaction and learnings by the Institute over last decade.
- Examples for creating the right culture and focus given the changing environment in which companies find themselves in 2020, which can lead to true customer satisfaction.
- What the Institute has gleaned from changing customer behaviour.

JP thanked JC on behalf of the Board for her time and presentation, noting the parallels to be drawn with the Company's focus on improving customer satisfaction, the arrival of IC with his customer service background and the enhancement to customers service that technology and training can bring for SESW.

JC then left the meeting.

2020 36. 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.

2020 37. Minutes of Previous Meetings

The minutes of the meetings held on 14 May 2020 were agreed and signed by the Chairman.

2020 38. Matters Arising

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

- Item 5 - ESP progress – TK summarised the inaugural meeting of the Environmental Scrutiny Panel (ESP), including the positive diversity of committee membership, the strong focus and leadership already being provided by Alison Thompson as chair and the key agenda matters for the Committee. TK noted the recent article in the Water Reporter which accompanied the launch of the Committee, which was subsequently circulated to the Board.
- Item 6 - Social Mobility pledge – IC noted his upcoming discussions with Justine Greening, and would keep the Board informed of associated focus areas for the Company, together with the Public Interest Commitment work he was engaged in with Water UK.
- Item 15 - Systems-based resilience – TK noted that progress was slower than anticipated in this area given the recent Covid-19 focus, but, at the request of the Board, a formal paper on progress would be presented at the 22 July Board.
- Item 44 – Godstone Consent update – TK noted that the site is now back online with a temporary relaxation consent (local enforcement plan) in place. Early indications on flow are that the Company is compliant with existing consent (and continue to be compliant on pH as expected). The Company has until late June to confirm if there is a need to change consent. Regarding the five trade effluent discharges, both Cheam outlets are regularly sampled by Thames and both Elmer outlets are regularly sampled by SESW. All are compliant.

The Board confirmed that DS would be the non-executive director designated to review the Company's softening performance and achievement of targets. DS confirmed that this had already commenced with his recent review of the April softening performance with TK. NH noted that this review would occur within the production area, led by TK, via the monthly Board performance reporting, and NH would be involved in such reviews quarterly in her quality and compliance role.

With respect to matters arising, JP inquired as to the status of the July 2019 pollution incident. TK noted that this has been downgraded from a Cat 2 to Cat 3 incident following review by the Environmental Agency.

2020 39. Board Committee Reports Committee

Report from the Remuneration Committee

DS provide the Board with a review of the Remuneration Committee meeting, noting:

- The conclusion of the 2019/20 bonus recommendations for the workforce, senior management team and executives following recommendations from the Group CEO and consideration by the Committee. The latter concluded that financial performance has been met in the year, with no outperformance, but reflected the work performed by management in light of PR19 and the recent Covid-19 crisis.

- The agreement of the framework for the 2020 Long Term Incentive Plan, with a focus on customer service and requisite discretion from the Committee as needed.
- Approval by the Committee and recommendation to the Board of the updated and updated Executive Pay policy, as documented in the draft 2019/20 Annual Performance Report (APR). The Board approved publication of this updated policy, and PK noted that this would be issued as part of finalisation of the APR and issued separately to Ofwat.

Report from the Governance Committee

ML provided the Board with a review of the Governance Committee meeting, noting the substantial progress made to address Ofwat's recent requirements in this area within the Board leadership and transparency sections of the APR. ML noted the continued focus of the Committee on the detailed actions arising from the recent Southern Water governance issues and SESW's prior year Board effectiveness review. The former would require a focus on a Corporate risk framework and related assurance.

Report from the Energy Strategy Committee

ML continued with a review of the Energy Strategy Committee, noting the review of the Company's energy purchasing policy, net carbon zero initiatives, large scale solar opportunities and electric fleet progress.

Report from the Audit Committee

ML provided the report from the Audit Committee, noting the detailed review of annual financial statements and report conducted through this meeting, including:

- Consideration of year-end financial statements, including the audited restatements pertaining to bad debt, assets under construction and developer services. ML noted that significant consideration by management and PwC has been given to the restatements and, although the net impact to prior year profit after tax was nominal, it was judged to be most transparent in the round to provide disclosure for such restatements and an explanatory footnote in the accounts.
- Review of management judgements, including the work performed by management, EY and PwC to conclude on final bad debt provision.
- A tax, accounting and reporting and regulatory update.
- The reports of the external auditors – PwC and Motts.
- The review of risk and compliance matters, including the Company's latest risk register, cyber security, results of recent internal audit reviews and the latest updates to key company policies.

ML noted the following recommendations for the Board:

- Approval of the annual report and accounts, with delegated authority to ML, IC and PK to complete and approve issuance of these items following completion of PwC and Motts' external audit.
- Approval of the regulatory accounts and associated filings with Ofwat, with delegated authority to ML, IC and PK to complete and approve issuance of these items.
- Approval of the Statement of Directors to the Water Regulation Authority, as documented in the current draft of the APR, including the Risk and Compliance statement and the Certificate of Adequacy (Ring-fencing certificate), with delegated authority to ML, IC and PK to review and approve any additional edits following completion of the external audits.

- Approval of the latest Company risk register.
- Approval of the Company's Going Concern and Long-Term Viability Statement as documented in the draft APR.
- Approval of the Annual Board statement on the Company's purpose, direction, aspirations and performance as documented in the draft APR.
- Approval for publication of the following key company policies as noted in the Audit Committee: the Quality, Environmental, Data Protection, Health and safety, Anti-bribery, Audit/Non-audit services, Security and Energy and Carbon policies.

The Board duly approved the above recommendations, documents and key policies, requesting an update on finalisation from ML and PK prior to final issuance of the APR.

2020 40. Covid-19 update

TK provided a summary review of the covid-19 event management, now in its 14th week.

The key issue emerging in the last month has been high demand during sunniest May on record.

- Rainfall has been exceptionally low – 1% of LTA in May, and 66% of LTA in April.
- Demand on Sunday 31 May was highest peak day for five years at around 222M/d. This following demand that had gradually grown throughout May.
- Additive effect of weather and lockdown means domestic demand up by around 30% on last May. This more than off-sets NHH reduction, meaning demand overall up 20% on last year.
- Key areas are wealthier sub-urban DMAs – some up 80% on a year ago.
- Nationally, the picture is an increase of between 20-40%, dependent on the company.

Our communications activities continue on a local, regional and national basis with other companies including targeted emails and SMS texts to 10-15,000 customers in effected high-use DMAs Local – 10k emails and SMSs targeted at high-use DMAs

With cases and death rate both falling in SE and nationally, focus now on phased remobilisation of works, with some activity already in place – external meter reads and fits, iDMA roll-out, Developer Services, and increased WTW attendance.

The Company is currently looking at recommencing customer-side leakage for external leaks in line with Government advice regarding visitors to gardens and open spaces. It cannot yet recommence internal visits except in emergencies.

Management are also focusing on the speed and therefore implications of local lockdown in the event of an upturn in cases/R-number regionally.

TK also reported on the required postponement of the planned A22 resilience works following the withdrawal of support by Croydon Council owing to concerns over the timing of advance warnings to local residents and businesses. These works will now be re-phased to summer 2021.,

PK closed by noting the ongoing liquidity risk being carried by the Company in respect of the business retail market code changes, and the planned recoupment of these deferred payments from August 2020 onwards. PK noted that management continued to be focused on HH and NHH cash

collection rates in the coming months, and would keep the Board apprised as part of the Board's Covid-19 updates.

2020 41. Ordinary dividend

PK reviewed with the Board the proposed June 2020 dividend, which the Board considered that the Company had the ability to pay given:

- The base level of appointed dividend reflects the return on regulatory equity allowed in the regulator's most recent price review.
- The company has adequate resources to fulfil its overall service commitments and its other financial obligations (including compliance with index-linked bonds).
- The overall level of service delivered to customers, compliance with statutory obligations and progress with the delivery of regulatory and other obligations.
- The Company's financial performance against regulatory assumptions and internal targets.

as provided in detail in the complementary dividend paper in Boardpacks.

However, as noted in the SESW Covid-19 Board meeting on 14 May 2020, the Board then considered the following criteria:

- Performance to date on minimising impact to customer services and performance levels in the light of Covid-19, especially with respect to social tariff and payment holiday services.
- Consideration in the round on treatment of employees, including levels of furloughing Levels of financial headroom under Covid-19 stress tested scenarios (including ESH cash levels from a group perspective).
- Progress on supplementary aspects of financial resilience, such as RCF extensions.
- Consideration of the status of water sector and overall utility industry in terms of maintenance of dividend levels.
- Equitable approach to shareholders given their own going support.

Based on the above Covid-19 related criteria, especially the uncertainty with respect to potential bad debt exposure given the financial hardships placed upon customers in the crisis, all members of the Board, including the shareholder representatives, agreed to defer the proposed dividend payment and reconsider in the 22 July Board.

2020 42. PR19 update

PK reviewed with the Board an update on PR19 matters, including the recent Ofwat PR19 debrief sessions, the current status of the Competition and Market Authority appeals by the four appellant companies and the PR19 reconciliation reporting required by the Company as part of the 15 July reporting to Ofwat. PK and ML noted in particular that treatment of the 2019/20 statutory restatement would require to be considered as part of this submission.

2020 43. Customer Transformation Programme

DL joined the meeting and updated the Board of the status of the Customer Transformation Programme.

The Board thanks DL for his update, noting the significant progress despite difficult Covid-19 circumstances for the team.

2020 44. Monthly Reports (March and April 2020)

IC reviewed with the Board the recent monthly performance report, noting in particular:

- The re-focused monthly senior management performance sessions, and deepdives into key performance areas.
- A renewed focus on customer metrics and performance, with separate time spend with IC on C-MEX and D-MEX delivery plans.
- The positive start to health and safety for the year with no accidents reported in April.
- The review and discussion by management on mitigating action for emerging risks, in relation to Covid-19 matters primarily, but also with respect to key supplier contracts, softening performance and IT service desk improvements.
- The disappointment of not being able to proceed with the planned A22 works, and the learnings derived from this matter.

PK confirmed that Ofwat's usual comparison of company's performance in the last year was paused at present while Ofwat reassessed their Company Monitoring Framework, but he expected some informal feedback post publication of the APR.

Health and Safety Update – action from external review

NH presented the latest status of the external action points arising from the recent John Corden review, noting that progress has been made on certain items, but that key matters – such as the consideration of a group-wide health and safety advisor, the issuance of stop cards and commissioning of an integrated health and safety management system had been delayed primarily due to Covid-19. The Board noted that further delays in deadlines should be avoided and requested a further progress update by management in the July Board.

Voice of the Customer update

IC provided a brief update of the above programme, noting the effective engagement with the external providers and management through IC and Cat Holland as part of the wider communications strategy.

2020 45. Shareholder Update

SK thanked management for the recent work during the Covid-19 crisis.

2020 46. Date of Next Meeting

Wednesday 22 July 2020 at Redhill

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(Chairman)