

# Chapter 11: Governance and assurance

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A.	Our Governance and assurance framework .....	2
B.	Board Assurance Statement .....	5



# 11. Governance and assurance

In this chapter we describe the governance structure that underpins the Company and its decision making, and how that has been applied to the development of the long-term delivery strategy (LTDS) and business plan.

We explain how the Board has overseen, and directly contributed to the development of, the LTDS and business plan and through appropriate assurance satisfied itself that the business plan is high quality and ambitious, and aligned with our LTDS, ensuring that we will deliver value in an efficient way for our customers, communities and the environment, both now and in the future.

The Board is conscious that the business plan will need to be updated when the outcome of the ongoing strategic review is known as any potential buyer will inevitably have its own views on the business plan and how it should be financed.

The Board Assurance Statement included in this chapter has been signed by all members of the Board.

## A. Our governance and assurance framework

### Introduction

1. The role of the Board is to provide strategic leadership and to approve the overall purpose and long-term objectives and development of the Company, together with monitoring of the Company's operational and financial performance.
2. The Board takes its obligations for good corporate governance extremely seriously and assesses both compliance with its own Code on principles of good governance, and adherence to Ofwat's 2019 Board Leadership, Transparency and Governance objectives, on an annual basis, as summarised in our annual performance report (APR).
3. Matters reserved for Board approval include ensuring there is a sound system of internal control and risk management, and that the effectiveness of the system is regularly reviewed. The system of internal control is outlined in our APR for 2023<sup>1</sup> and the monitoring system element includes an Assurance Framework that is separately published on the Company website<sup>2</sup>.
4. The well-established internal processes that ensure the Board can have confidence that data and statements proposed for submission to our regulators, for external reporting or publication are accurate is shown in Figure 1.

<sup>1</sup> [SES Water Annual Report and Accounts 2023](#)

<sup>2</sup> [SES Water Company Monitoring Framework 2020-2021 FINAL](#)



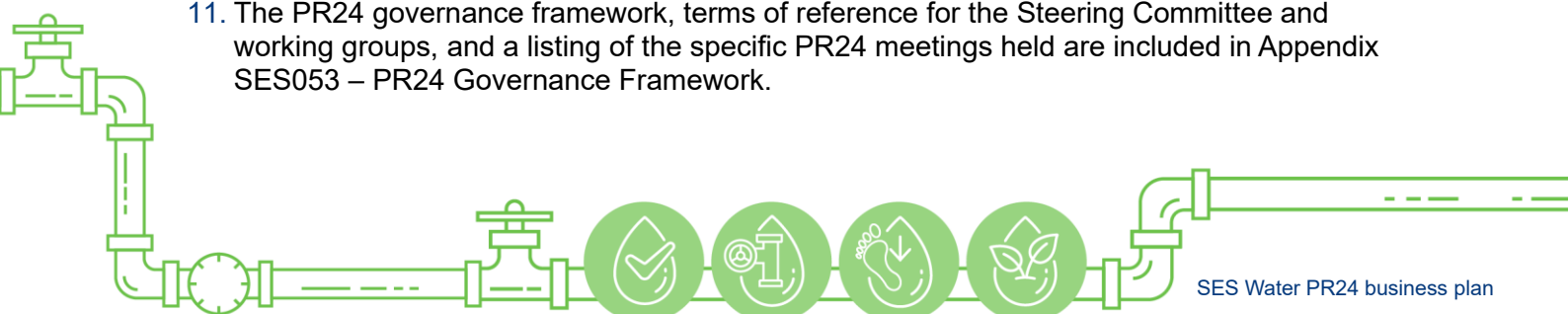
**Figure 1: Board assurance process**

Source: SES Water Company Monitoring Framework

5. We take a proportionate approach to assurance and ensure that this aligns with the application of the Company's ISO 9001 accredited Quality Management System. The framework steps adopted will be tailored to the specific data or information to be shared in accordance with our assessment of risk, and as previously applied in-line with our monitoring framework targeted assurance plan. We aim to prevent inaccurate data and information being collated through the adoption of documented systems and processes, and the steps in the framework should ensure we identify and correct any errors prior to the sharing of information. In the event that errors are identified, we take prompt action to rectify the reporting and make the necessary improvements to our management procedures.

## PR24 Governance

6. Applying the governance and assurance framework to PR24, the Board has provided strategic leadership and direction to the preparation of our PR24 plans.
7. The proposed governance framework for PR24 was agreed by the Board on 9 December 2021. The framework allocated the Chair and each Non-Executive Director (NED) to have initial oversight for specific areas of focus and incorporated a PR24 Steering Committee to be chaired by the Chief Financial Officer (CFO) and comprising NED representative, executive leadership team (ELT) members, a dedicated PR24 Project Manager, our Regulation Manager (economic modelling expert), shareholder representative and external experts from Cambridge Economic Policy Associates (CEPA) and Berkley Research Group (BRG). Each committee member was aligned to specific areas of the business plan, and the external representatives were engaged to guide and directly contribute to the business planning process.
8. The PR24 Steering Committee met approximately every two months from early 2022 through to September 2023 and reported direct to the Board, both at scheduled Board meetings, an additional fourteen PR24 specific Board meetings and ad-hoc deep-dive sessions arranged to consider key aspects of the plan.
9. The PR24 Steering Committee was supported by a number of workstream groups set up to address specific aspects of the plan, with a nominated workstream lead and working group members to facilitate cross-departmental and external advisor inputs, as appropriate.
10. From April 2023 to September 2023, twice-weekly progress meetings were held, attended by all workstream leads and key contributors to the development and documentation of both the LTDS and the plan.
11. The PR24 governance framework, terms of reference for the Steering Committee and working groups, and a listing of the specific PR24 meetings held are included in Appendix SES053 – PR24 Governance Framework.



## PR24 Assurance strategy

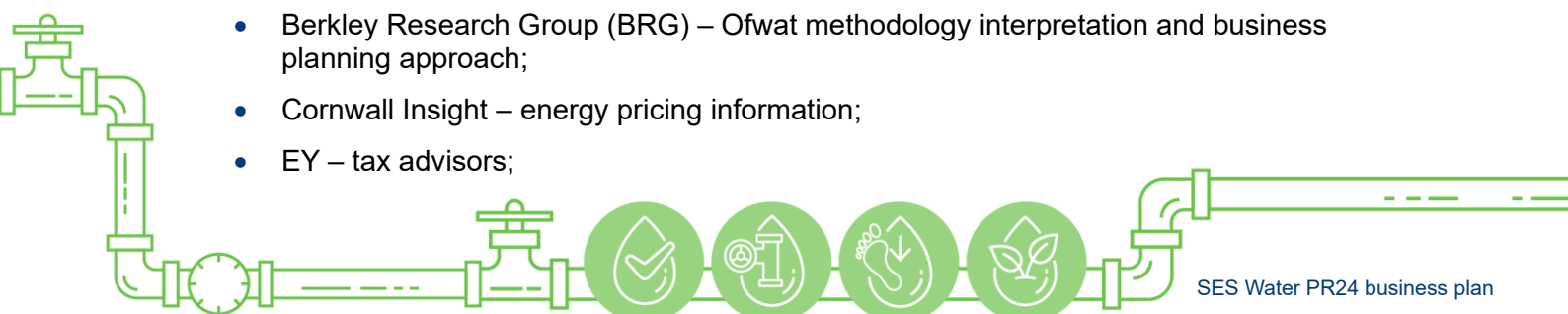
12. The Board assurance of both the LTDS and the PR24 business plan data tables and written plan was developed from our well-defined normal Board Assurance process.
13. The collation of the relevant data and information by internal colleagues (and supported by external advisors as appropriate) was reviewed by a nominated workstream lead (member of the executive leadership team or external advisor), subjected to challenge from stakeholders, such as the Company's Customer Scrutiny Panel (CSP) or Environmental Scrutiny Panel (ESP) members, and then the business plan Steering Group, prior to any internal or external assurance and final discussion with, and approval by, the Board, as shown in Figure 2 below:

**Figure 2: PR24 Board assurance process**



Source: SES Water

14. In practice, the LTDS and business plan components were subject to continuous review and challenge throughout their development, by both shareholders, the wider executive team, nominated Board leads and the full Board, as the strategy and plan have adapted and evolved in response to the results of customer engagement, modelling and optimisation of investments and water resources management planning. For example, the work associated with the 'Explaining our costs' chapter was subject to continuous review from our CFO, Audit Committee Chair and external experts.
15. The Board determined that the engagement of specialist advisors to support the development of certain aspects of the business plan would reduce the need to secure external assurance of all elements; instead, there was a focus on ensuring workstreams had at least two separate levels of review, with those areas that were likely to be more material or subject to more prescribed methodologies externally assured.
16. The proposed assurance strategy and external assurance providers were approved by the Board on 27 September 2022 [Appendix SES053], with confirmation that the current external provider engaged by the Company to deliver technical assurance of our annual performance metrics (Mott Macdonald) would be retained to assure the technical business plan data tables and cost adjustment claims.
17. Key advisors engaged to support the LTDS and business plan formulation were:
  - Create 51 - customer engagement; LTDS development; and documentation and presentation materials;
  - Cambridge Economic Policy Associates (CEPA) - overall regulatory review with specific development of cost assessments (including cost adjustment claims), outcomes and financial modelling;
  - Berkley Research Group (BRG) – Ofwat methodology interpretation and business planning approach;
  - Cornwall Insight – energy pricing information;
  - EY – tax advisors;

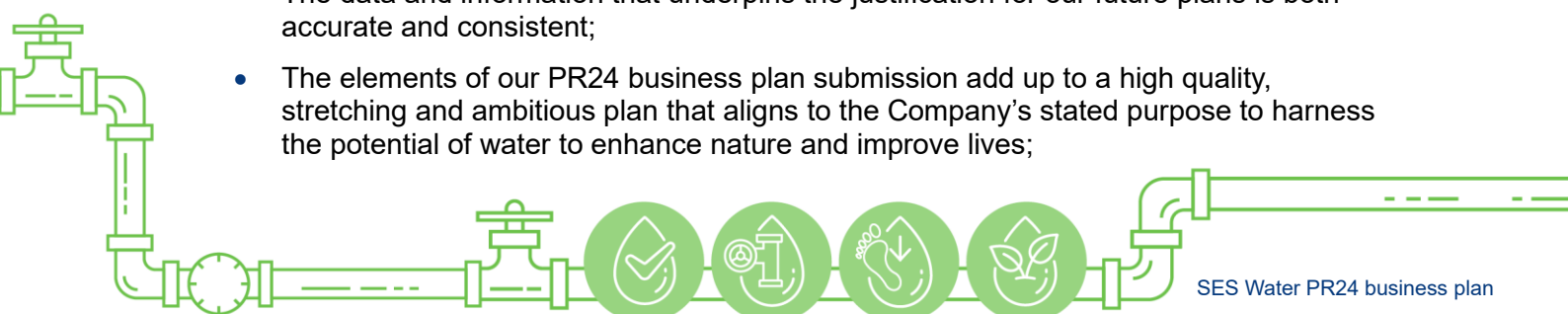


- Copperleaf – systemised optimisation of capital projects embedded in our business plan; and
  - DJS Research, Explain, Given, ICS Consulting and Impact – research partners formulating and delivering our customer engagement programme.
18. External resources allocated to independent assurance of the LTDS and business plan were:
- Mott Macdonald – technical assurance of non-financial data tables and cost adjustment claims;
  - NERA – assurance of actual and notional financial modelling, risk and return calculations, the Company’s assessment of financial resilience and the PR19 reconciliations;
  - PA Consulting – assurance of the supporting evidence for the Board assurance statements for the LTDS and business plan; and
  - CSP and ESP, with Beryl Wall, independent customer research consultant, additionally engaged to support the CSP.

## B. Board Assurance Statement

### Introduction

19. This statement has been produced in support of SES Water’s PR24 Business Plan. The SES Water Board of Directors (‘the Board’) confirms that it is accountable for the overall business planning process, takes ownership of the LTDS and business plan, and has ensured that the business plan submission is consistent with the LTDS and represents the first five years of the LTDS core pathway.
20. We recognise the importance of good governance and assurance to ensure that our stakeholders can have confidence in our future plans and our ability to deliver them.
21. As a Board, we are confident that we have submitted the best possible long-term strategy and business plan that are both high quality and ambitious to ensure that we deliver value for customers, communities and the environment at PR24 and in the longer term.
22. The Company’s full Board has been integral to the governance surrounding the development and submission of the LTDS and this business plan. The wide-ranging breadth of professional experience and knowledge of board members has been applied where it could add most value and the assurance workstream has been directly overseen by the senior independent non-executive director. The business plan, including data tables and compilation of supporting information, has been developed following well established Company systems and processes with associated internal assurance checks prior to the application of external assurance where required.
23. The Board have taken account of Ofwat’s requirements for the LTDS and business plan and the more specific expectations in respect of assurance. We have provided direction and challenged management throughout the planning process, sought supporting assurance, and are confident that:
- The data and information that underpins the justification for our future plans is both accurate and consistent;
  - The elements of our PR24 business plan submission add up to a high quality, stretching and ambitious plan that aligns to the Company’s stated purpose to harness the potential of water to enhance nature and improve lives;



- The plan for 2025-2030 is deliverable with the resources proposed, and will support the Company's long-term vision to transform performance through digital innovation and smart technology, to build the trust of our customers so that they value water and the service we provide, and to enhance the environment and provide local communities with wider benefits from our business activities;
- The plan reflects the priorities of our customers and communities that we serve;
- The plan has been developed to take into account our legal and licence obligations, the Government's strategic policy statements and regulatory guidance and will deliver industry leading performance in a number of areas; and
- The plan will deliver operational, financial and corporate resilience, both in the period to 2030 and in the longer term.

24. The Board addresses Ofwat's expectations in respect of assurance in the sections below. The evidence that supports those statements is directly referenced in the sections where relevant to do so but is otherwise captured in the supporting sections of the LTDS or business plan, or Appendix SES053. External assurance undertaken in support of the Board Assurance Statement by PA Consulting is also summarised in Appendix SES012 – External Assurance.

## LTDS

25. The Board has documented a separate Board assurance statement specifically in support of our LTDS. Whilst the LTDS assurance supporting commentary and evidence is not replicated here, the LTDS assurance statements we have made (LTDS chapter 7, paragraphs 305 to 353) are summarised below:
- 26. The Board confirms that the LTDS reflects the long-term vision and ambition that is shared by the Board and Company management.**
- 27. The Board is confident that our LTDS is high quality and represents the best possible strategy to efficiently deliver our stated long-term objectives, given future uncertainties.**
- 28. The Board is confident that the LTDS will enable the Company to meet its statutory and licence obligations, both now and in the future.**
- 29. The Board confirms that the LTDS is based on adaptive planning principles.**
- 30. The Board is satisfied that the LTDS has been informed by meaningful customer engagement.**
- 31. The Board confirms that we have taken steps to secure long-term affordability and fairness between current and future customers, ensuring bills remain affordable for all.**
- 32. The Board has challenged and satisfied itself that the 2025-30 business plan implements the first five years of the LTDS.**

## Affordability

- 33. As a Board, we are confident that the full implication of the 2025-30 business plan for customers was considered and that the plan achieves value for money.**

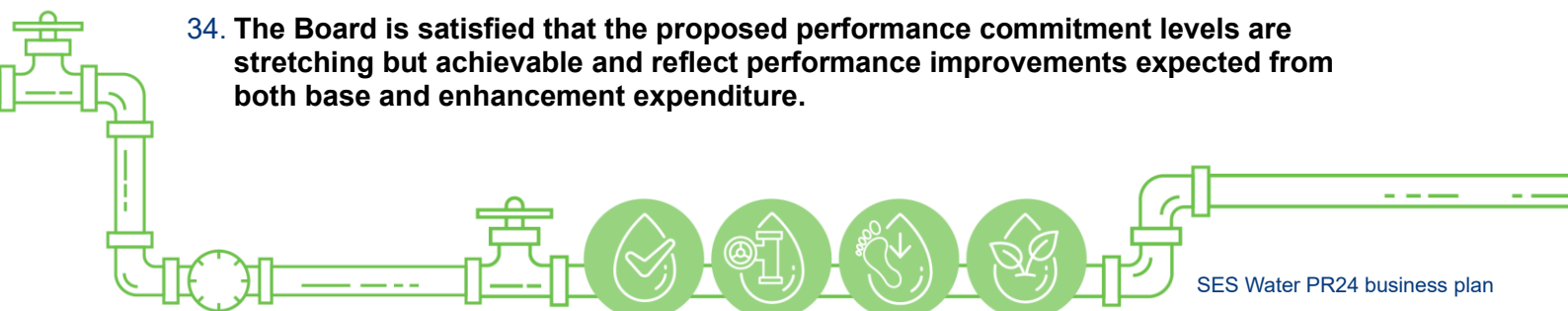
**We are also confident that our LTDS protects customers' ability to pay their water bill over the long term and delivers fairness between what existing customers will pay and what is paid for by future customers.**



- The Board recognises that the number of customers experiencing financial hardship has increased as the cost of living has risen. Following review of evidence provided by the Company, the Board is confident that SES Water has taken all reasonable steps to consider the implications of the business plan on the future bills for all customers and customers' ability to pay.
- The impact at PR24 has also been considered in light of the Company's LTDS and our longer-term ambitions, and the business plan balances the immediate investment requirements needed to ensure we meet our regulatory obligations and maintain the consistent delivery of high-quality water with plans to ensure the longer-term resilience and improvements that will serve future bill payers and benefit the environment.
- The Board is confident that the Plan delivers value for money, balancing the delivery of business as usual, planned improvements to service levels and the resultant impact on bills, both in the short term and phased over the longer term.
- In ensuring the business plan delivers value for money, the Board has challenged the Company to be innovative and efficient, such as in the targeting of lead pipe replacement where those more vulnerable are most likely to benefit; working in partnerships to deliver improvements to the environment and raw water quality; and in the acceleration of smart meter penetration to better manage water usage efficiency and leakage.
- The Board has agreed that the 1% ongoing efficiency target applied to all CAPEX and OPEX forecasts for AMP8 represents an appropriate and stretching target that helps keep bills affordable for customers whilst ensuring the Company will still be able to maintain its asset base and deliver service improvements.
- Where choices of investment have been available, either in the approach adopted, addressing alternative rates of solution delivery or enhancements beyond our statutory requirements, the Board has ensured the chosen solution represents best value for current bill payers through the adoption of a specialist asset and infrastructure investment planning tool (Copperleaf), seeking customer views ('Bespoke 2' customer research) and conducting affordability and acceptability testing of our preferred option proposals in-line with Ofwat guidance.
- Our final PR24 business plan delivers our routine statutory requirements and addresses specific challenges and proposed enhancements and the Board supports the proposed average water bill increase (excluding inflation) of £25 by 2030 (a 10.5% increase on 2024/25) and the proposed bill profile across AMP8.
- The Board acknowledges that despite the business plan being highly acceptable to customers as one that delivers against their priorities, some customers were concerned that it was not affordable against the back-drop of the current economic climate. The Board is therefore ensuring that measures to protect the most financially vulnerable are included as part of our plan, including our on-going support for up to 25,000 customers through the award of a social tariff. We are reassured by the feedback from the CSP that the proposals being presented to the Board "are affordable and avoid raising bills higher than necessary".

## Costs and Outcomes

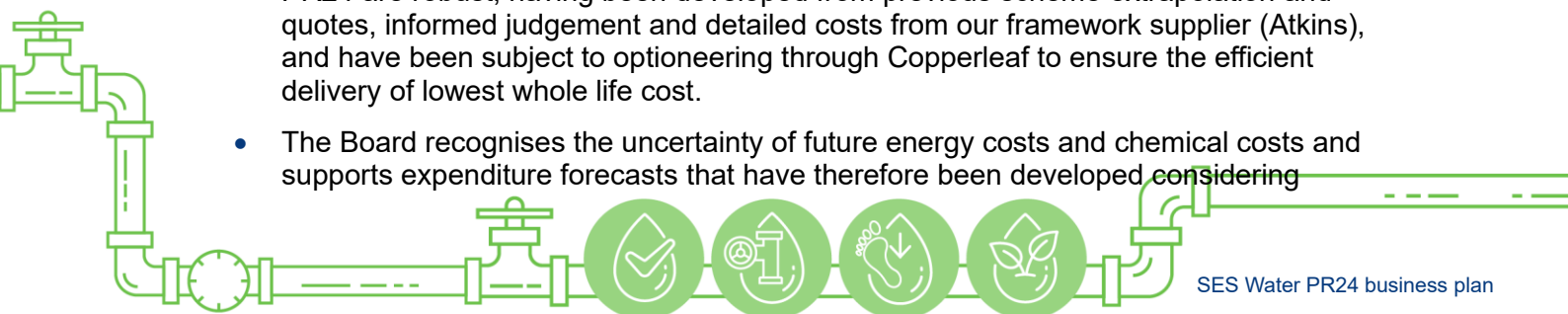
- 34. The Board is satisfied that the proposed performance commitment levels are stretching but achievable and reflect performance improvements expected from both base and enhancement expenditure.**



- In determining the degree of ambition to be applied to performance, the Board has considered the Company's historical rate of improvement, current and predicted end-of-AMP performance and the benchmarking of our performance against that of others in the industry.
- The Board has positioned the proposed targets to be stretching, delivering improvements to our levels of service where appropriate to do so, and including some areas where we already have industry-leading performance, but also ensuring the targets are achievable and represent value for money for our customers.
- In some areas, such as leakage, our performance targets continue to deliver improvements on an already industry leading performance,
- The Board have proposed maintaining the Company's current level of good (upper quartile) performance for a number of performance commitments where the Company already performs well, but we have also supported a plan to deliver an appropriate degree of improvement in the areas that our stakeholders and customers have signalled they care about or are willing to pay more for during the customer and community engagement research.
- The Board has supported the inclusion of a single bespoke performance commitment for our legal requirement to deliver a partially softened water supply in areas where the raw water is naturally hard. For PR24, that will require specific investment to refurbish our Kenley treatment works and on-going capital maintenance at all other softening sites, as set out in our cost adjustment claim for softening [Appendix SES029 – Cost Adjustment Claim: Softening].
- The Board endorses the submission of cost adjustment claims relating to pumping costs (for raw water abstraction and transport, given the particular topography of the area we serve and nature of ground water sources) [Appendix SES027 – Cost Adjustment Claim: Pumping], and those related to the small scale of our Retail activities [Appendix SES030 – Cost Adjustment Claim: Retail Scale] and high regional labour costs [Appendix SES028 – Cost Adjustment Claim: Regional Wages].
- The Board has challenged management to balance the level of short-term ambition and the cost to deliver, with the longer-term aspirations for performance outlined in our LTDS and have considered the professional opinion of external advisors supporting this aspect of the business plan.

### 35. The Board confirms that the Business Plan expenditure forecasts are robust and efficient.

- The business plan has been rigorously tested against relevant models (internal and external) for both base and enhancement costs.
- The Board has taken account of the modelled efficiency and have challenged management to ensure that cost allocation is appropriate, that management have reviewed the major contracts that underpin our operational delivery, that there is a balance between desirable efficiency and performance and that the unit costs have been suitably benchmarked.
- The Board considers that the costs for planned major capital scheme investments in PR24 are robust, having been developed from previous scheme extrapolation and quotes, informed judgement and detailed costs from our framework supplier (Atkins), and have been subject to optioneering through Copperleaf to ensure the efficient delivery of lowest whole life cost.
- The Board recognises the uncertainty of future energy costs and chemical costs and supports expenditure forecasts that have therefore been developed considering





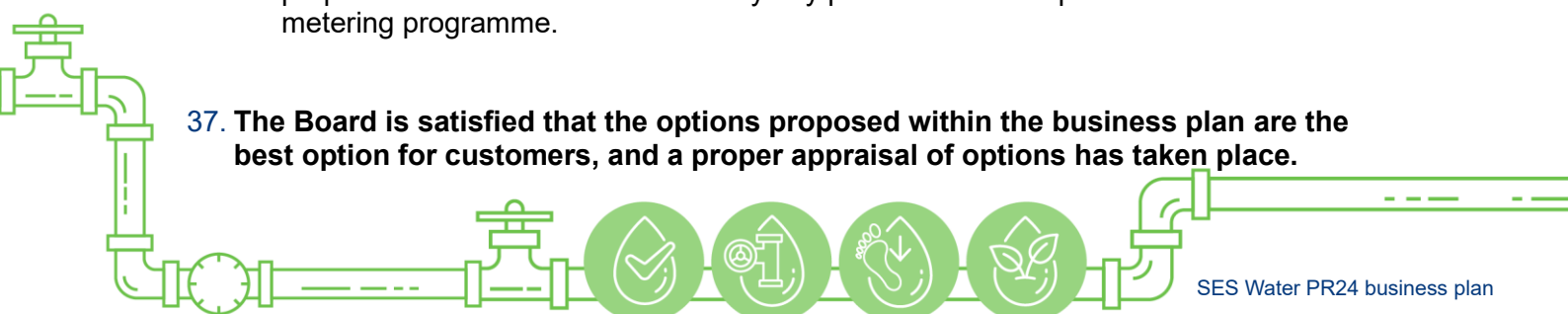
extrapolated current base costs (chemicals), external insight (from Cornwall Insight for energy). These have been developed with CEPA and subject to internal expert review and challenge.

- Expenditure forecasts in the business plan incorporate our baseline and enhancement costs. The Company has ensured that these forecasts are prepared and reviewed in the same manner as the annual budget forecasts, with the CFO and his finance team reviewing all revenue and cost items, including detailed reviews of energy, chemicals, salaries and pension related balances. The Board also considered and affirmed the inclusion of a 1% ongoing efficiency into the Company's TOTEX forecasts, ensuring that management continue to be challenged to deliver at an efficient level. With respect to financing costs, the Board acknowledges the probable inefficiency with respect to interest and indexation costs associated with the Company's historical debt structure, given the significant RPI-linked bond that has been in place since 2001.
- The Board has seen the benefits of innovation in delivering leakage reductions from an intelligent network and supports further application of smart technology to enable an efficient improvement in performance, as described in Chapter 10.
- One of the NEDs specifically reviewed the significant cost adjustment claim for softening, a unique Company-specific legal obligation with associated performance commitment, and on which the Company obtained specific external technical assurance for this cost item from Mott MacDonald [Appendix SES012 – External Assurance].
- Where we have seen the evidence that regional and operational variations specifically impact our Company costs and are not accounted for in the relevant base cost Ofwat models that determine efficiency, such as the high costs of borehole raw water pumping, cost to operate our retail function (scale of operation) and impact of regional wages, we have supported additional cost adjustment claims. External assurance from Mott Macdonald has also been obtained for the additional pumping cost claim and retail scale [Appendix SES012].

**36. The Board is satisfied that all proposed enhancement investment is to address new improvements or requirements and are not influenced by non-compliance or non-delivery of programmes of work (base or enhancement) that customers have already funded.**

- All projects proposed as specific enhancement expenditure were presented to the Board for approval on 10 November 2022. The Board confirmed with management that the cost of each scheme is for the delivery of new or improved outcomes only.
- Where the programmes build on existing outputs, such as our current programmes to reduce leakage, upgrade meters and reduce customer exposure to lead, the Board have sought assurance from management that the PR24 enhancement claims are for a step-change in delivery and not to secure the completion of previously funded projects.
- In this regard the Board challenged on the work associated with smart metering, with a separate non-executive director review of this enhancement claim, ensuring that the proposed claim was not influenced by any potential non-compliance in our current metering programme.

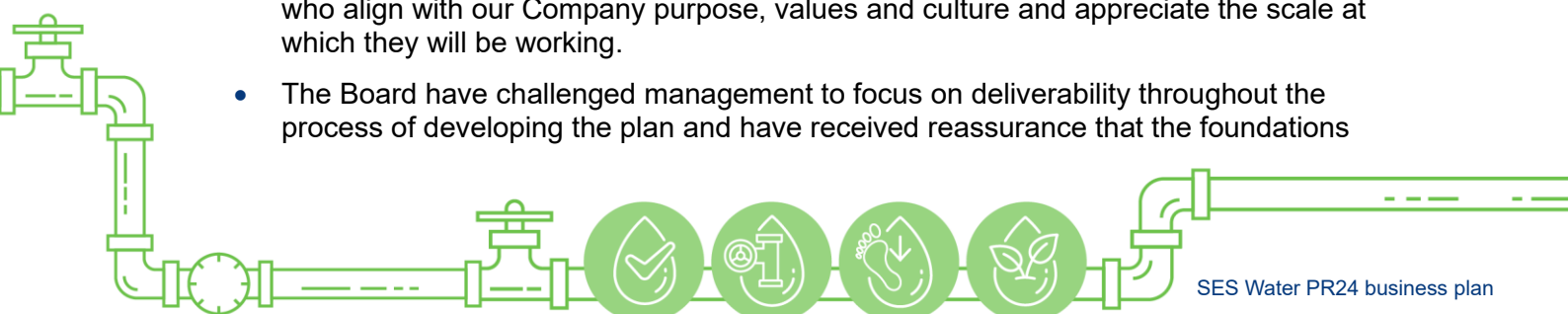
**37. The Board is satisfied that the options proposed within the business plan are the best option for customers, and a proper appraisal of options has taken place.**



- The Board discussed the specific choices that influence the delivery of the Company's longer-term ambitions, and hence impact key enhancement proposals, at the PR24 Board meeting on 7 February 2023. Those choices centred on the scope and pace of rollout of smart metering, leakage measures, C-MeX improvement measures and lead pipe removal, together with the proposed Water Industry National Environment Programme (WINEP) work to be performed.
- The Board considered and confirmed that material change to the Company's water resources and network is not required given the Company's satisfactory water resources position (evidenced in the Company's Water Resource Management Plan (WRMP)) and good operating track record.
- The CSP discussed and challenged management on the options presented to customers ensuring that the Company had reflected customers' views on preferred options within the Plan.
- The Company engaged expert external resources to assist with the evaluation of options within the Plan, and the Board, following discussion with management, approved the use of the Copperleaf model for optioneering evaluation and selection of most appropriate enhancement schemes.
- The final choice of options has considered our regulatory obligations, the balance of our proposed performance commitments at PR24 and longer-term benefit to the delivery of our LTDS and the resultant cost to customers, both now and in the future, thereby minimising whole life costing. Further detail on such options with respect to Enhancement Cases is contained in Appendices SES006-SES010.
- The Board are aware of the option provided by the Environment Agency (EA) in July 2023 to consider a phasing our PR24 WINEP into future price reviews. The Board supports management's view that the WINEP proposals are deliverable, financeable and will not result in any adverse impacts on our customers, and so no phasing was proposed. This decision considered the nature of our activities proposed, the overall cost of the programme and the customer research that had supported our environmental plans.

**38. The Board is satisfied that the proposed PR24 Plan and expenditure proposals are deliverable, and the Company has put measures in place to secure delivery.**

- SES Water has a good past record of delivery and has exhibited high levels of innovation in AMP7 to drive more effective outcomes, for example with its smart networks and leakage reduction measures.
- The Board recognises that a step-change is needed in the delivery of activities for PR24 compared to PR19, both at SES Water and across the industry as a whole. There is an increased level of risk in securing full delivery of the plan due to potential shortfalls in the ability of the supply chain to deliver components such as smart meters at the rate required across the industry, or to ensure specialist resource remains available to the water sector in a competitive utility market.
- To mitigate against the risk, the Company is reviewing its supplier and framework structures and planning ahead to fix the programme of works as early as possible with clear project management proposals; and will look to engage with contractors who align with our Company purpose, values and culture and appreciate the scale at which they will be working.
- The Board have challenged management to focus on deliverability throughout the process of developing the plan and have received reassurance that the foundations



are in place to deliver key schemes within the Plan, such as smart metering and softening upgrades at Kenley Treatment Works.

**39. The Board is satisfied that the business plan includes price control deliverables covering the benefits of material enhancement expenditure (not covered by performance commitments)**

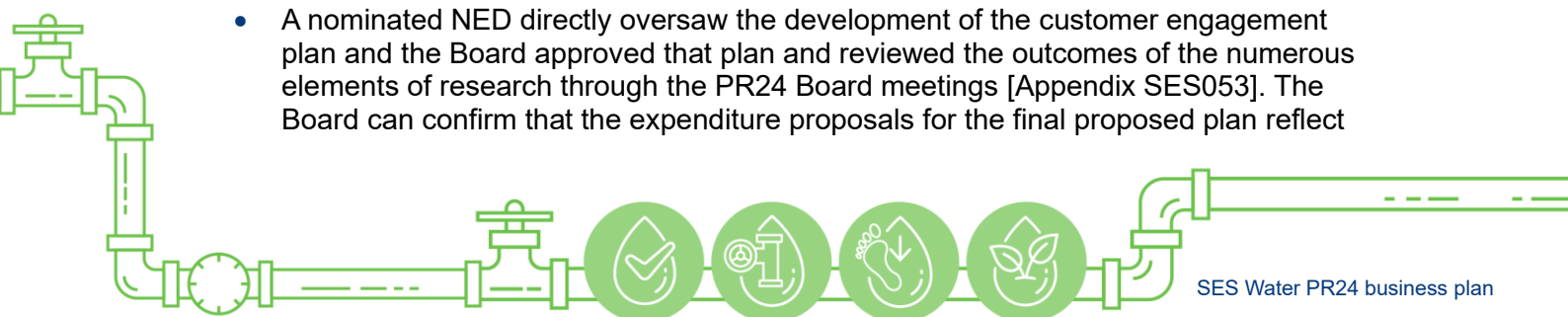
- The Board has considered the price control deliverables within the enhancement cases being proposed (namely PCDs associated with lead replacement, smart metering and resilience related work), and are satisfied that these are appropriately included on the basis of their materiality (relative to overall business plan TOTEX) and are not otherwise being covered by performance commitments or other regulatory legal instruments.

**40. The Board is satisfied that the expenditure proposals are affordable by customers and do not raise bills higher than necessary.**

- The Board is satisfied that the expenditure proposals reflect an efficient delivery of base requirements and limit the enhancement spend to that needed to deliver necessary or customer supported improvements at PR24.
- In reaching this conclusion, the Board has considered the outputs of the Company's financial modelling and efficiency benchmarking, the options for bill profiles across the AMP and the use of regulatory levers (such as Pay As You Go (PAYG) levers) to manage bills for customers. The Board also considered the balance between expenditure levels to deliver our plan, meeting our proposed commitments to customers and associated long-term ambitions, and affordability, taking into account the financeability metrics that the Company must achieve under its bond covenants.
- Therefore, the bill profile provided in the plan was considered affordable for customers, aligned to the expenditure levels required to deliver our plan and was not higher than necessary.

**41. The Board is satisfied that the Business Plan expenditure proposals reflect customer views, and where appropriate are supported by customers**

- Customers' key priorities are to receive a high-quality water from sustainable sources; to have a resilient water supply from source to tap; to receive help in reducing their water footprint and be charged a fair price; and for SES Water to improve the environment and have a positive impact in the local area. The results of the research that has specifically sought customer views on the acceptability of our proposed business plan, demonstrates that 66% household customers and 79% non-household felt our plan was acceptable.
- Customers and stakeholders have had the opportunity to influence our LTDS, the priorities for the first five years of that strategy, and the level of ambition the Company should be aiming for within the confines of defined and acceptable bill increases through the multi-faceted and extensive research and engagement plan, as outlined in Chapter 5.
- A nominated NED directly oversaw the development of the customer engagement plan and the Board approved that plan and reviewed the outcomes of the numerous elements of research through the PR24 Board meetings [Appendix SES053]. The Board can confirm that the expenditure proposals for the final proposed plan reflect



customer views on what should be delivered in AMP8, considering the cost of those activities.

- Of particular note, the outputs of the Bespoke 2 customer research programme that demonstrated the levels of customer support for proposed areas and degrees of enhancement were shared with the Board, and the Board is satisfied that the final schemes adopted appropriately reflect those customer views.
- In the case of smart metering, whilst Bespoke 2 had a low level of customer support for a faster rollout of smart meters, the Board accepted the Company's plans to deliver this programme, given the high level of customer support to reduce leakage and water demand, with consequent benefit to the environment, for which smart meters are seen as essential.

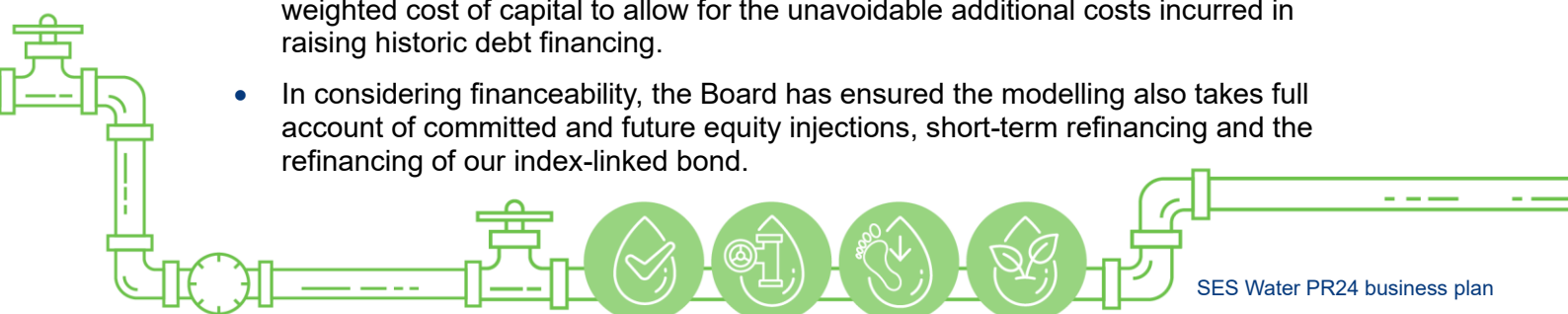
## Risk and Return

### 42. The Board confirms that the Company's business plan is financeable on the basis of the actual and notional capital structure.

The steps taken to enable the Board to make this statement, including the consideration of all components of our business plan and the Ofwat early view on the allowed return on capital and the consideration of the financial ratios are summarised below.

In addition, the Board confirms that the actual Company is financially resilient over the 2025-2030 period and beyond under its business plan.

- The Board has ensured the Company's business plan is financeable on an actual and notional basis after incorporating various components of our PR24 business plan as specified by Ofwat, including TOTEX, official forecasts of inflation, the early view of allowed return and retail margin, PAYG levels and RCV run-off rates.
- However, the financeability is dependent upon:
  - Additional equity from 2024/25 and into AMP 8 (modelled at £35m) that is required following the conclusion of the ongoing strategic review (in addition to the £22m receivable in 2023/24);
  - Ofwat's acceptance of our TOTEX plans, and related efficiency assumptions;
  - Retaining a RCV run-off rate of 7% consistent with PR14 and PR19 levels;
  - No downward movement in Ofwat's early view of allowed return and the inclusion of a company-specific uplift to the cost of debt after customer consultation of 30bps; and
  - Effective and efficient debt raising activity from late 2023 onwards, including re-financing of our indexed-linked bond commencing in 2027.
- Financeability has been assessed on an actual basis, before considering any reconciling adjustments that may apply in respect of past performance at PR19.
- The Board's assessment of financeability has considered both the financial metrics that Ofwat note in their Final Methodology and compliance with the financial covenants associated with our index-linked bond.
- The Board supports the Company-specific adjustment to Ofwat's early view of the weighted cost of capital to allow for the unavoidable additional costs incurred in raising historic debt financing.
- In considering financeability, the Board has ensured the modelling also takes full account of committed and future equity injections, short-term refinancing and the refinancing of our index-linked bond.



- Our forecast financial metrics indicate the Company achieving, on average across AMP8, a credit rating of Baa1 under Moody's assessment criteria, albeit marginally, with at a minimum a solid credit rating of Baa2.
- However, achieving a credit rating of Baa1 is caveated with the need for solid operational and regulatory performance, TOTEX spend in line with final allowances from Ofwat, continued equity injections as detailed in our financing plan for 2023 to 2026, and absent any adverse macro-economic factors.
- The Board are reassured that the Company's specific funding arrangements have been appropriately considered in determining financeability through our financial model that incorporates the unique ratios from the historic bond, checked for alignment with Ofwat's model where appropriate.
- As a Board we are appraised of financial matters through the Financing Committee and specific engagement on this topic for PR24 has been delivered throughout the year to the Board.
- External independent assurance of the financial modelling has been provided by NERA.
- The Board notes that on the basis described above, the business plan demonstrates compliance with our bond ratios for the 10-year period to 2033, and this aligns with our going concern assessment and long-term viability statement published in July 2023 in our APR<sup>3</sup>, thereby confirming the Company's financial resilience over this timeframe.
- The Board acknowledges that the Company is not resilient to extreme downside scenarios in which case action would be necessary to suspend dividends and/or obtain additional equity.

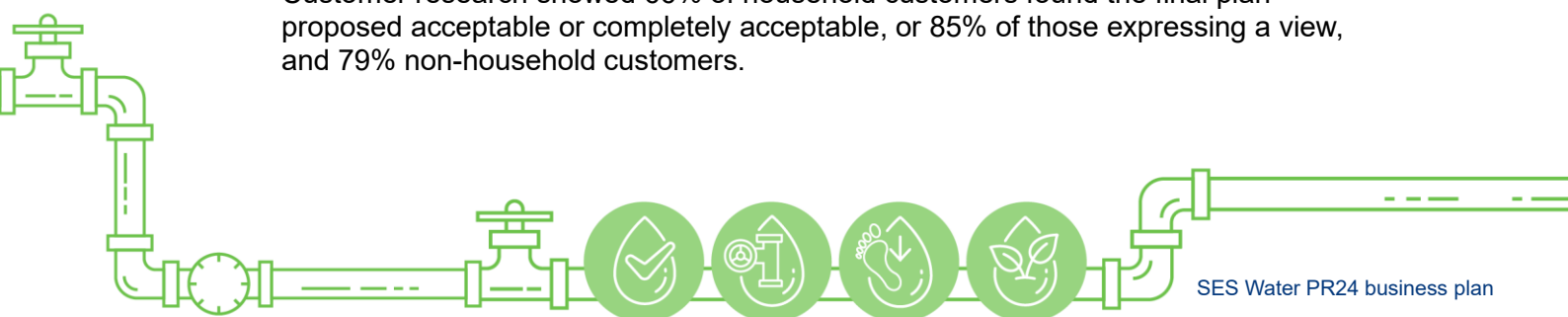
## Customer Engagement

**43. As a Board, we are satisfied that the Company has delivered a high-quality customer engagement and research programme that has followed best practice, addressed each of Ofwat's key principles for engagement research, and has been used to inform our long-term delivery strategy and business plan.**

- The Company adopted a multi-tiered approach to customer and stakeholder engagement, drawing on internal and wide-ranging external expertise to provide the Board with reassurance as to the robustness of the research and the quality of the outputs that have then been used to inform our business plan and LTDS.
- The engagement and research plans specifically developed for PR24 built on the outputs of the Company's routine programme of engagement that continuously evaluates customer satisfaction and invites stakeholder feedback, such as reviews of customer complaints, feedback from our on-line panel 'Talk on Water' and analysis of our C-MeX results.
- To ensure a more holistic approach to engagement, in support of a high-quality research programme, and to improve on what the Company delivered for PR19, the Board supported the Company's proposal for multiple external agencies to be engaged to deliver different aspects of the overall engagement plan, from establishing Company priorities, through the setting of ambition and genuine customer choices, and finally ensuring the plan was deliverable and affordable for customers.

<sup>3</sup> [SES Water: SES Water Annual Report and Accounts 2023, July 2023](#)

- The Board ensured that the total number of customers targeted for engagement was increased compared to PR19 and the range of processes and channels adopted for PR24, and the mix of qualitative and quantitative research, ensured there were good response rates to inform the outcomes.
- The Board has oversight of on-going customer engagement activities through periodic updates presented at Board meetings and was directly involved in the process to review, challenge and approve both the over-arching planned approach to the customer and community engagement plan for PR24 and the draft materials to be used for each stage of customer research.
- The development of the engagement materials, progress of delivery and the outcomes of each stage were reviewed in detail by the NED with specific expertise in this area, at each stage, and the Board has also discussed how each element of research has been used to inform our future plans.
- The Board also recognised that more could be done to increase the demographic and socio-economic breadth of customers involved in the research compared to PR19. Improved data analysis enabled us to target specific areas so that the respondents better aligned with our customer base. We specifically promoted the inclusion of future bill-payers (through engagement with Surrey Youth Cabinet and those attending work experience programmes at the Company), and those that would be classed as vulnerable.
- The improved promotion and delivery of our surveys, focus groups and forums across a wider audience gives the Board confidence that the resultant plan represents the views of all customers. Evidence of the plan being adapted to account for customer preferences (from Bespoke 2 research) can be seen in the decision to deliver a faster reduction in leakage than was initially proposed, and to deliver a non-statutory environmental programme.
- The Board has encouraged the Company to collaborate with other water companies in the South East to compare findings and support proposals that may relate to specific impacts of the customer demographic and shared water resource challenges and has supported how the outputs of the independent industry-wide customer research conducted Ofwat and Consumer Council for Water should be considered where they do not fully align with our own engagement and research.
- The CSP has provided independent reviews and assurance of our approach to customer engagement research, how we have interpreted the outcomes of that research and then considered that in the development of our LTDS and business plan. They have also sought their own external assurance from an independent consultant with extensive experience in design and management of qualitative and quantitative studies in the utility sectors, to support them in their assessment and to ensure Ofwat's expectations on independent assurance of the process has been met. The CSP were continuously updated as to the format of planned customer engagement, progress being made and outcomes of the research throughout the development of the plan, attended forums and 'Your Water, Your Say', and have documented, and presented to the Board, their own independent assurance report on SES Water's customer and stakeholder research and engagement [Appendix SES040 – Customer and Environmental Scrutiny Panels – Final Assurance Report].
- Customer research showed 66% of household customers found the final plan proposed acceptable or completely acceptable, or 85% of those expressing a view, and 79% non-household customers.



## Ambition

44. The Board believe the Company's business plan is ambitious and reflects the expectations and priorities of our customers, stakeholders, regulators and government.
45. Our long-term ambition is largely defined by the outcomes we will deliver, which are aligned to the performance commitments set by Ofwat for PR24, and are also reflective of our Company's purpose and long-term vision.
46. The Board are proud of the Company's record of performance delivery relative to the rest of the industry. Our ambition will be to maintain that strong relative performance where we are already industry leading, and generally to build incremental improvements in service where that is supported by customers or dictated by regulation.
47. As a small water-only company, the Board believes that the Company has had to be pragmatic and proportionate and make some strategic choices in respect of its level of ambition, ensuring that our service always remains deliverable and affordable for customers. Where we have greater improvements to make in our current performance, such as C-MeX and D-MeX, we are targeting consistent performance above the industry median; where we already have upper quartile performance and a demonstrated history of network innovation we are set to deliver frontier shifting levels of ambition, for example in reducing leakage.
48. One of our most challenging levels of ambition is in the planned reduction in PCC of 11% (relative to the level in 2019/20) by 2030. Our customer demographic, South East climate and current level of metering penetration means that to achieve this we plan to invest heavily at PR24 in a smart metering programme, tariff innovation and customer awareness, driven by both base and enhancement expenditure.
49. Our plan proposes an ambitious ongoing efficiency target for our CAPEX and OPEX forecasts for AMP8 of 1%. The Board considers that this is a stretching and ambitious efficiency target, but one considered necessary to ensure that we are able to maintain our network effectively while keeping bills affordable for customers. This target is above the plausible target range of 0.3-0.8% proposed by Economic Insight for ongoing efficiency at PR24, therefore we consider this appropriately stretching.
50. The CSP report provides assurance that the plan represents appropriate ambition to ensure affordability for customers and financial support for vulnerable customers both now and in the future.

## Compliance with Ofwat Guidance

51. The Board is confident that our business plan is high quality and complies with the guidance provided by Ofwat in their PR24 Final Methodology documents.
52. Our plan also includes all relevant supporting evidence and has incorporated the assumptions and methodologies stipulated by Ofwat, or clearly explained and justified where we have deviated from the standard.
53. Our plan has been internally assured against a guidance checklist prepared by CEPA and BRG, who reviewed and itemised all the requirements in Ofwat's PR24 Final Methodology, ensuring that each chapter addresses the minimum expectations specified by Ofwat as well other requirements and elements of general guidance.
54. The Board has approved the final documents produced.




## Summary

55. The SES Water Board of Directors confirm that at its meeting on 26 September 2023 the full Board reviewed the Company's PR24 business plan and approved its submission to Ofwat. We are confident that it is a high quality, ambitious and deliverable plan that reflects our customers' priorities and is aligned with the planned delivery of our LTDS.

56. Signed by:



Dave Shemmans, Chair



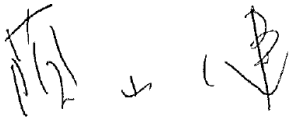
Murray Legg, Senior independent non-executive



Jon Woods, Independent non-executive



Rebecca Wiles, Independent non-executive



Ken Kageyama, Shareholder nominated non-executive



Kenji Oida, Shareholder nominated non-executive



Ian Cain, Chief Executive Officer



Paul Kerr, Chief Financial Officer

