

# Corporate governance report

1

## Competence and independence

Boards and their committees are competent, well run, and have sufficient independent membership, ensuring they can make high-quality decisions that address diverse customer and stakeholder needs.

“Effective Boards must be comprised of individuals with diverse skillsets and experience, who exhibit independence of thought and judgment.”

**Keith Lough**

7 July 2023

### Overview of the Board’s responsibilities

The Board’s role is to:

- establish the company’s purpose, strategy and values
- develop and promote the company’s purpose in consultation with a wide range of stakeholders
- determine overall strategic aims and direction consistent with the company’s purpose
- monitor and assess the company’s values and culture to ensure that behaviour throughout the business is aligned with the company’s purpose
- have full responsibility for all aspects of the company’s regulated business in the long term
- ensure that the company’s obligations to, and interests of, all its stakeholders, including customers, employees, key partners, contractors and regulators, are known and met appropriately
- provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company’s impact on the environment
- ensure that sufficient resources are available to the Chief Executive Officer and his team to operate, manage and develop the business appropriately to provide an essential public service to our customers
- ensure that appropriate and effective processes and controls are in place to assess and manage risk.

### Greensands Holdings Board

The Shareholders’ Agreement of our parent company, Greensands Holdings Limited, reserves certain matters by exception to the board and shareholders of that company. This includes the company’s dividend policy, which can be found on page 110. While the policy governing dividends is subject to shareholder approval, the decision whether or not to recommend payment of a dividend from Southern Water Services Limited sits with the Southern Water Board. A schedule of those matters reserved to Greensands Holdings Limited is published at [southernwater.co.uk/greensands-ownership-of-southern-water](https://southernwater.co.uk/greensands-ownership-of-southern-water).

During the year 2022–23 a number of matters required the approval of the Board, the majority shareholder or shareholder of Greensands. These included approval of the company’s execution plan, financing – including that necessary to carry out the removal of the Cayman Islands entity – the investment for the four water quality strategic plans and the approvals required as a result of the major investment by funds managed by Macquarie Asset Management.

# Corporate governance report continued

## Shareholders

### Greensands Holdings Limited Board of Directors

Certain key matters are reserved to the board of Greensands Holdings Limited and/or the shareholders.

### Southern Water Services Limited Board of Directors

The Board of Southern Water is ultimately responsible for the company.

### Executive Committee (ExCom)

Comprising the Chief Executive Officer, Chief Financial Officer, General Counsel and Company Secretary, Chief Operating Officer, Chief Customer Officer, Chief Information Officer, Chief People Officer and Director of Corporate Relations, it meets to agree areas of strategy and other matters critical to the company.

### Executive Committees

The ExCom, alongside members of the company's senior leadership team, support the CEO in driving the implementation of strategy in the company. Comprised of the senior leaders of the functions and operational units, the executive committees meet regularly to:

- Consider performance and make decisions on operational matters;
- Oversee the company's transformation programme; and
- Consider health, safety, security and wellbeing, risk and compliance.

# Corporate governance report continued

## 1. Competence and independence continued

### The Board

The Board comprises the non-executive Chairman, two executives – the Chief Executive Officer and Chief Financial Officer – and nine non-executive directors, five of whom, making up the single largest group, are independent. It routinely determines the following matters:

- Business and financing strategy
- Business plans
- Approval of annual budgets
- Fixing of principal charges and schemes
- Approval of financial statements
- Key regulatory submissions
- Key customer and stakeholder publications
- Entering into significant contracts or commitments
- Approval of dividends
- Commencing new businesses
- Appointment or removal of the auditor, directors and company secretary
- Remuneration of independent non-executive directors.

During the year, the Board's agenda covered:

- The execution plan to deliver the company's business plan for 2020–25.
- Preparation and planning for the next five-year business plan for 2025–30.
- The development and approval of the water quality strategic plans.
- Strategic action plans to improve the company's resilience and performance and to support the turnaround strategy.
- Monitoring the company's environmental impact and the further development of the company's storm overflow reduction programme.
- Continuing to develop measures for monitoring of the company's culture, including the introduction of a new value, Working with Care.
- Reviewing and monitoring the company's progress against the undertakings given to Ofwat following the settlement in 2019–20.
- Risk appetite and risk monitoring.
- Development and approval of key regulatory submissions including the company's draft Water Resources Management Plan (WRMP),

Water Industry National Environment Programme (WINEP), Drainage and Wastewater Management Plan (DWMP), Water for Life – Hampshire (WfLH).

- Health and Safety Transformation Programme.
- Cost of living crisis and impact on customers.
- Water resources and the introduction of Temporary Use Bans.

### Board committees

In line with both the Board leadership, transparency and governance principles published by Ofwat and the UK Corporate Governance Code as well as best practice, the Board has established a number of standing committees with specific responsibilities. These committees are:

#### Audit

#### Health and Safety and Operational Risk

#### ESG

#### Nomination

#### Remuneration

The committees assist the Board by monitoring and reviewing performance and issues within their respective scopes. Specific responsibilities have been delegated to these committees.

Each committee has written terms of reference, which are published at: [southernwater.co.uk/board-committee-terms-of-reference](https://www.southernwater.co.uk/board-committee-terms-of-reference). These terms of reference are reviewed at least annually.

In addition to the established committees, the Board constituted a Committee to oversee the Price Review 2024 (PR24) and other regulatory submissions, including our water resource and drainage and wastewater management plans.

Other committees are constituted if and when required for specific matters.

### Formation of our ESG Committee

As reported last year, In February 2021, the Board approved the formation of an Environment, Social and Governance Committee to provide greater oversight and consideration of the material environmental, social and governance matters relevant to the company's activities, including environmental performance programmes and plans; social performance programmes, including employee engagement, equality, diversity and inclusion and community engagement; and governance matters relating to ethical and transparent business practice. The committee met for the first time in the reporting year.

# Corporate governance report continued

## 1. Competence and independence continued

### The Board

- Has full responsibility for the company's business over the long term.
- Establishes the company's purpose, values and culture and sets its strategy.

➔ Read more on pages 140 to 145

### Audit Committee

- Monitors the integrity of the company's financial statements by challenging the basis of preparation and the judgments made.
- Monitors the integrity of non-financial information reported by the company.
- Keeps under review the company's internal controls and risk management systems.
- Reviews the company's overall risk appetite, tolerance and strategy and level of resilience.
- Oversees Internal Audit and the relationship with the external auditor.

➔ Read more on pages 172 to 176.

### Health and Safety and Operational Risk Committee

- Monitors and advises on health, safety, security and wellbeing and makes appropriate recommendations to the Board.
- Reviews and monitors operational risks and related risk management systems.

➔ Read more on pages 177 to 178.

### ESG Committee

- Reviews and provides oversight and consideration of the material environmental, social and governance matters relating to the company's activities.
- Monitors the company's culture including employee engagement, equality, diversity and inclusion and community engagement.
- Reviews governance matters relating to ethical and transparent business practice.
- Oversees the company's environmental plans.

➔ Read more on pages 179 to 180.

### Nomination Committee

- Reviews the size, structure and composition of the Board.
- Evaluates the balance of independence, skills, experience and diversity on the Board.
- Leads the process for identifying and nominating candidates for approval by the Board.

➔ Read more on pages 168 to 170.

### Remuneration Committee

- Sets remuneration policy for all executive directors and the Chair.
- Recommends and monitors remuneration for senior leaders.
- Approves the design of, and determines targets for, any performance-related pay schemes.
- Reviews the design of all long-term incentive plans.
- Oversees major changes to employee benefit structures.

➔ Read more on pages 184 to 201.

# Corporate governance report continued

## 1. Competence and independence continued

### Board meetings and attendance

A total of eight Board meetings were scheduled to take place during the year.

The attendance at scheduled Board meetings during the year was as follows:

Member	Attendance
Keith Lough	8/8
Ian McAulay <sup>1</sup>	2/2
Sebastiaan Boelen <sup>2</sup>	3/3
Lawrence Gosden <sup>3</sup>	6/6
Nadim Ahmad <sup>4</sup>	2/2
Stuart Ledger <sup>5</sup>	3/3
Paul Sheffield	7/7
Rosemary Boot	6/7
Mike Putnam <sup>6</sup>	7/8 <sup>6</sup>
Gillian Guy	6/8
Kevin McCullough <sup>7</sup>	3/3
Malcolm Cooper	8/8
Mark Mathieson	8/8
Will Price	8/8
Martin Bradley <sup>8</sup>	0/0
Steve Fraser <sup>9</sup>	7/8

<sup>1</sup>Ian McAulay resigned as a director on 30 June 2022.

<sup>2</sup>Sebastiaan Boelen resigned as a director on 31 July 2022.

<sup>3</sup>Lawrence Gosden was appointed a director on 1 July 2022.

<sup>4</sup>Nadim Ahmad was appointed a director on 31 July 2022 and resigned as a director on 3 January 2023.

<sup>5</sup>Stuart Ledger was appointed a director on 3 January 2023.

<sup>6</sup>Due to a date change for a Board meeting, Mike Putnam was unable to attend.

<sup>7</sup>Kevin McCullough resigned as a director on 31 July 2022.

<sup>8</sup>Martin Bradley resigned as a director on 1 May 2022. He remains a director of the company's ultimate holding company, Greensands Holdings Limited.

<sup>9</sup>Steve Fraser was appointed a director on 1 May 2022.

The agenda and papers are sent to Board members in advance of each meeting. A monthly performance report is distributed for the months when there is no scheduled meeting.

The Board usually holds its meetings at the company's head office in Worthing. The Board also endeavours to hold some meetings at an operational site during the year. In addition to the scheduled meetings, the Board holds a strategy day each year in order to provide an opportunity to discuss the company's future strategy and plans.

Where a director has a concern over any unresolved matter, they are entitled to require the Company Secretary to record that concern in the minutes of a meeting. Should the director later resign over the issue, the Chair would bring it to the attention of the Board.

All members of the Board were and are able to allocate the necessary time to the company in order to be able to discharge their responsibilities effectively.

## Board composition

There have been a number of changes in the composition of the Board during the year. As reported last year, the then Chief Executive Officer (Ian McAulay) and Chief Financial Officer (Sebastiaan Boelen) announced their intention to retire in 2022–23. Nadim Ahmad served as interim Chief Financial Officer until the arrival of Stuart Ledger in January 2023. Kevin McCullough resigned as a director in July 2022, with Mark Mathieson assuming his role as workforce non-executive director. Lawrence Gosden was appointed CEO in July 2022.

Keith Lough has served as Chairman since 1 August 2019. Mark Mathieson and Will Price are also directors of the company's ultimate parent company, Greensands Holdings Limited.

As at 31 March 2023, women made up 18% of the Board (two out of 11 directors). During the year, the company's Nominations Committee has overseen the

recruitment of two new independent non-executive directors. As at 7 July 2023, women made up 25% of the Board (three out of 12 directors). The company is committed to having a diverse workforce that reflects the communities it operates in. The company publishes a Gender Pay Gap Report. Our report showed that the median pay gap remains in favour of female employees at -3.32%. In terms of the bonus gap, we have seen a further reduction from 16.1% to 14.95% in favour of male employees.

We are committed to supporting the aspirations of our talented female workforce and have implemented plans to address the gender pay gap. Read the full report at: [southernwater.co.uk/gender-pay-gap](https://southernwater.co.uk/gender-pay-gap).

In accordance with good governance practice, the roles of the Chair and Chief Executive Officer are separate.

# Corporate governance report continued

## 1. Competence and independence continued

### Board composition continued



#### Chair

The role of the Chair is to lead the Board in its shared responsibilities, to encourage and facilitate the contributions of its members and to ensure adherence to the governance principles and processes of the Board. Keith Lough has served as the company's Chair since 2019. In line with the Ofwat Board leadership, transparency and governance principles as well as the UK Corporate Governance Code, Keith was viewed as independent on appointment.

The Chair discusses and agrees Board meeting agendas with the Chief Executive Officer and Company Secretary, although any director may sponsor an item to be included on the agenda. The Chair has authority to act and speak for the Board between its meetings, which includes engaging with the Chief Executive Officer. The Chair reports to the Board, chairs of its committees and individual directors as appropriate on decisions and actions taken between Board meetings. The Chair also meets with the non-executive directors, without the executive directors present, to consider the performance of the executive directors and to provide feedback.

The Chair is not a member of the Greensands Holdings Limited (the company's ultimate parent company) board.



#### Chief Executive Officer

The Chief Executive Officer is a member of the Board and has all the responsibilities of a director of the company. Lawrence Gosden has served as the company's Chief Executive Officer since July 2022. In his executive role, responsibility has been delegated to him to deliver the company's strategy. He is empowered to take all decisions and actions that further the company's strategy and which, in his judgment, are reasonable within the Chief Executive Officer's limits set out in the company's internal controls and matters reserved to the Board. The non-executive directors, led by the Chair, appraise his performance annually.



#### Chief Financial Officer

The Chief Financial Officer is a member of the Board with all the responsibilities of a director of the company. Stuart Ledger was appointed as the company's Chief Financial Officer in January 2023. In his executive role and reporting to Lawrence Gosden, he has the responsibility for managing the company's financial affairs and assisting the Chief Executive Officer in the delivery of the company's strategy. His performance is reviewed annually by the Chief Executive Officer.



#### Senior independent non-executive officer

Paul Sheffield was the senior independent non-executive director for the reporting period. Paul chaired the Remuneration Committee and was also a member of the Nomination Committee.

As senior independent non-executive director, ordinarily Paul would chair Board meetings in the event that the Chair was unable to do so for any reason. In the capacity of senior independent non-executive director, he was available to discuss matters or concerns with investors as required.

Paul announced his intention to step down from the Board and he resigned as a director on 31 March 2023 and was replaced by Gillian Guy.

# Corporate governance report continued

## 1. Competence and independence continued



### Independent non-executive directors

The largest single group on the Board are the independent non-executive directors in accordance with the Ofwat Principles and as a matter of good governance practice. The number of independent non-executive directors is also in accordance with the company's licence conditions, which require at least three independent non-executive directors on the Board.

They provide independent advice and perspectives and review and challenge decisions and reporting on behalf of all stakeholders, including customers and the workforce. The independent non-executive directors have been appointed for their individual external expertise and experience in specific areas, such as customer service, the environment, operations, procurement, capital project delivery, regulation, transformation and for the range of their experience of general corporate management.

The non-executive directors also appraise the Chair's performance.

The standard terms and conditions for the appointments of independent non-executive directors can be viewed at: [southernwater.co.uk/corporate-governance](https://southernwater.co.uk/corporate-governance).



### Shareholder representative non-executive directors

Under the terms of the Shareholders' Agreement, certain investors have a right to nominate for appointment non-executive directors to the Board of Southern Water. As a statutory director, such an individual has all the duties, obligations and rights of a director of Southern Water. As such, they act in accordance with the directors' duties set out in the Companies Act 2006, including those set out in section 172 to promote the success of the company for the benefit of its members as a whole, having regard to the long term and the interests of the company's stakeholders.

The funds managed by Macquarie Asset Management have nominated four directors – Mark Mathieson, Will Price, Steve Fraser (from 1 May 2022 when he replaced Martin Bradley) and, from 31 May 2023, Phil Swift – to act as shareholder representative non-executive directors. Please refer to pages 144 to 145 for details of the background and experience of the shareholder representative non-executive directors.

Neither Will Price nor Mark Mathieson receive any remuneration from Southern Water. In May 2023, Phil Swift was nominated to act as a shareholder representative non-executive director, with the intention that Mark Mathieson will leave the Board later in the year.



### Company Secretary

All directors have access to the advice and services of the Company Secretary, Richard Manning, and the Company Secretariat team. The Company Secretary is responsible for ensuring that the Board operates in accordance with the adopted governance framework and that there are good information flows to the Board and its committees and between senior executives and the non-executive directors. The appointment and removal of the Company Secretary is a matter reserved to the Board.

Directors are also able to obtain appropriate independent professional advice in connection with the performance of their duties.



# Corporate governance report continued

## 1. Competence and independence continued

### Board independence

In accordance with the Board leadership, transparency and governance principles published by Ofwat, the majority of non-executive directors have been independent and independent non-executive directors were the largest single group on the Board throughout the year.

Following listed company best practice, the Board takes into account those matters listed in Provision 10 of the UK Corporate Governance Code, as well as any other relevant circumstances or considerations in forming its assessment of the independence of directors.

The Board considers that the independent non-executive directors were throughout the year, and continue to be, independent in character and judgment and persons of standing with relevant experience, collectively having connections with, and knowledge of, the company's area and understanding of the interests of our customers, communities, workforce, suppliers and the environment and how these can be respected and protected.

Conflicts or potential conflicts are governed by the Companies Act 2006. The Board does not have power to authorise conflicts under the company's Articles of Association. If a conflict should arise, the conflicted director takes no part in discussions and may not vote on that issue. During 2022–23, no director declared a material interest at any time during the year in any contract of significance with the company.

### Balance of skills and experience of the Board (as at 7 July 2023)

The Board, as a whole, has an appropriate balance of skills, experience, independence and knowledge of the company, and the Board provides independent support and advice as well as new ideas and healthy challenge. The number of directors with significant and/or material skills, knowledge and experience related to the key areas necessary to deliver the company's strategy is summarised below. Details of the individual Board members' experience are on pages 140 to 145.

	1	2	3	4	5	6	7
Capital programmes							
Operations							
Customer							
Environment							
Governance							
Regulation							
Financing							
Transformation							
Utilities sector							
Digital and technology							

### Moving towards creating a resilient water future for our customers

In order to be able to deliver for our customers and the communities we serve, the Board requires a diverse range of skills and experience. The table above shows the current Board members in terms of their primary skills and experience.

# Corporate governance report continued

## 1. Competence and independence continued

### Board Report

#### Introduction

The Board takes full responsibility for setting the company's strategy and holding the executive to account for performance. Specifically the Board's role is to:

- establish the company's purpose, strategy and values
- develop and promote the company's purpose in consultation with a wide range of stakeholders
- determine overall strategic aims and direction consistent with the company's purpose
- monitor and assess the company's values and culture to ensure that behaviour throughout the business is aligned with its purpose
- have full responsibility for all aspects of the company's regulated business in the long term
- ensure obligations to, and interests of, all company stakeholders are known and met appropriately
- provide effective leadership and collective responsibility for the long-term success of the company for the benefit of its members, taking into account the interests of a wide range of stakeholders, including customers, local communities, employees, suppliers and the company's impact on the environment
- ensure that sufficient resources are available to the CEO and his team to operate, manage and develop the business appropriately
- ensure that appropriate and effective processes and controls are in place to assess and appropriately manage risk.

The Board plays a critical role in setting the tone of the company and acting as an interface with key stakeholders – the company's customers and shareholders, communities, government, regulators.

The Board works through and with its committees to ensure proper oversight of the company's business. The role of committees is described on page 151. Each committee makes its own report setting out its responsibilities and the key areas it has addressed during the year. This report of the Board's activities sets out the areas where the Board has focused during the year.

### Setting long-term strategy

A key focus for the Board in 2022–23 has been the development of the company's investment plan for the next Price Review period 2025–30. The Board met in February 2023 for a day dedicated to the company's strategic objectives, outcomes and priorities, informed by what is important to customers and stakeholders as well as taking account of current and future trends.

### Aligning purpose, values and culture

The Board reaffirmed the company's purpose and vision, which remain:

**Our purpose:** To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

**Our vision:** To create a resilient water future for customers in the South East.

Last year's annual report set out in detail the steps the Board had taken to ensure that the company's values, culture and ethics were aligned with its purpose. The Board felt then – and continues to feel – that a robust and ethical culture is critical to avoiding negative behaviours of the past and is a crucial underpinning to the delivery of the company's purpose and vision. The Board has given its strong endorsement to the company's Code of Ethics. The Board continues to monitor key indicators of culture, whether directly or through its committees. A nominated Board member takes a specific interest in workforce engagement and reports to the Board on these matters.

During the year, management considered the company's existing company values and, in taking steps to improve the safety culture of the business, the company identified an absence of a specified safety core value. The Board was pleased to support and approve a fourth value: Working with Care. It supports the company's commitment to ensuring that everyone returns home safely and healthy at the end of the working day.

# Corporate governance report continued

## 1. Competence and independence continued

### Addressing performance issues

The Board has maintained focus on the company's performance, overseeing and supporting the development of programmes and plans to continue improvements to both short-term and long-term performance.

In March 2022, the Board welcomed Marcus Rink, Chief Inspector at the Drinking Water Inspectorate (DWI). Subsequent to an internal review, management developed a new planning process to better understand and manage the company's water quality risk and support long-term resilience at four of its critical water sites. The Board oversaw, supported, and approved submissions to the DWI, having previously approved the additional investment to deliver the improved performance required. The Board will continue to track performance against the plans to ensure timely delivery.

Throughout the year there has been increased scrutiny on all water companies on the operation of their storm overflows and management of discharges to the environment. The Board has ensured that it has received updates on the company's performance and endorsed and supported management's plans to continue to deliver performance improvements.

Within the reporting year, several significant operational incidents have occurred, impacting the supply of water to some of our customers. The Board ensures that it is kept up to date during these events, challenging and supporting management to ensure that key learnings are identified and acted upon, including the support provided to customers both during and after the event. Read more about the company's operational performance on pages 42 to 95.

### Turnaround Plan

In April 2023, the company published its two-year delivery plan to rapidly improve performance. The Board has supported its development. It contains stretching performance targets that underpin business priorities to improve our service to customers and the environment. Alongside the plans, the CEO has strengthened his leadership team to maintain focus on driving delivery against the performance targets and building on improvements.

### Long-term resilience

In addition to the company's plans for the next five-year investment period, the Board has overseen the company's water

resource management planning (WRMP), including the significant Water for Life – Hampshire programme (WfLH). The Board is committed to the development of water resource plans that include innovative solutions to continue to provide a resilient water supply to its customers while protecting the important river habitats within its region.

As well as overseeing significant programmes for water, the Board oversaw and approved the Drainage and Wastewater Management Plan (DWMP), the company's strategic long-term plan for the next 25 years that sets out the investment needs to manage and reduce risks, arising from the performance of our wastewater systems, to our customers and the environment.

### Holding the company to account for performance

The Board dedicates considerable time to the monitoring of performance, keeping under review activities within its remit, as will be seen from individual committee reports. The Board carries out its monitoring and oversight role as follows:

- Each committee chair reports matters considered by the committee at Board meetings.
- At each meeting the Executive team presents a reporting suite, including the CEO and CFO reports, an operational performance report of key KPIs, and a report on health and safety.
- In addition to its core meetings, the Board conducts deep dives into specific topics, with matters considered in the year including – cyber security risk, water quality and public health, the cost of living crisis and the impact on customers, the company's Health and Safety Transformation Programme and pollutions.
- The Board conducts periodic site visits to enable it to get a first-hand feel for issues and to hear the views of Southern Water colleagues.

Where performance falls below levels expected the Board will always interrogate the facts and background to the issue and will seek to give firm support to the Executive team in ensuring appropriate remedies.

### Sustainability

With the formation of the ESG Committee, the Board is ensuring that it is enhancing its oversight of sustainability and that it is a key component

# Corporate governance report continued

## 1. Competence and independence continued

within the company's vision and purpose. In addition to the matters brought to the ESG Committee, see pages 179 to 180, the Board receives regular updates on ESG matters.

### Other key matters considered during the year

- Environmental Performance, as measured through the Environment Agency's Environmental Performance Assessment.
- Deep dives on water quality and public health, cost of living crisis (customer), Health and Safety Transformation Programme, non-financial regulatory performance commitments, pollutions, storm spills.
- Leakage performance.
- Customer charges, including the enhancement of the company's social tariff offering.
- Section 19 compliance and monitoring report.
- Water quality (CRI) and delivery of Final Enforcement Orders (FEOs).
- Customer service improvement plan.
- Risk management.
- Code of Ethics review.

### Board evaluation

The full results of the external evaluation, carried out by Korn Ferry, were received at the end of the 2021–22 year. The focus of the Board in 2022–23 has been on embedding the changes recommended by that review. Within the reporting year, the Chair and Board have undertaken an informal review, linked to the recruitment of new appointments to the Board.

# Corporate governance report continued

## 2. Purpose, value and culture continued

2

### Purpose, values and culture

The company Board establishes the company's purpose, strategy and values, and is satisfied that these and its culture reflect the needs of all those it serves.

“The company's purpose is why it exists. Its purpose should influence all of the company's actions and the company's strategy must fulfil its purpose.”

**Keith Lough**

7 July 2023

#### Our purpose:

To provide water for life to enhance health and wellbeing, protect and improve the environment and sustain the economy.

#### Our vision:

To create a resilient water future for customers in the South East.

### Establishing Southern Water's purpose

The Board is responsible for establishing Southern Water's purpose and for ensuring that its decisions in respect of its strategy enable it to deliver this purpose. The Board and the company must stay informed and take into account the interests of a wide array of stakeholders. It must ensure that its activities, which affect matters such as support for the vulnerable, infrastructure investment, measures to protect the environment and engagement with the public to reduce water consumption, support the company's purpose.

### Alignment of Southern Water's purpose with values and culture

Values dictate how a company acts when delivering its purpose. The company's culture should align with those actions in order to deliver on its purpose.

One of the key expressions of the company's values is its Code of Ethics. The code sets out the behavioural expectations for colleagues and partners, as well as showing the values guiding how Southern Water conducts its business.

The Board plays a key role in setting the tone for the business, and has consistently supported the commitment to embedding ethical business practice throughout the organisation. All Board members have signed up to the Code of Ethics, and it has been personally endorsed by the Chair and Chief Executive Officer.

The Board has continued to monitor the company's culture, building on the steps taken to ensure that the unacceptable behaviours never happen again.

# Corporate governance report continued

## 2. Purpose, value and culture continued

### A key area of focus for the Board is to monitor culture

#### Monitoring and assessing our culture

As reported last year, a core component of the company's cultural change programme was the development of appropriate and informative measures. These can be used to inform the Board about the culture within the organisation and the progress made in terms of the attempts to change culture for the better.

Building on the company's cultural change programme, the development of the company's Turnaround Plan supports ethical working and the alignment of culture to business outcomes.

As the company's approach has matured, the measurement of culture has continued to evolve, to enable the Board to better understand the extent to which ethical business practices have been embedded within the organisation. This includes the monitoring of the company's and individuals' behaviours, compliance and enterprise risk actions and controls.

#### Culture Change Group

The Culture Change Group continued to meet throughout the reporting period, sharing ideas and best practice and monitoring progress against the culture measures and action plans, to further embed ethical business practice across the business.

## 3.89

Gallup survey score out of 5

These results provide valuable insight for the Board.

# Corporate governance report continued

## 2. Purpose, value and culture continued

The Board has continued to monitor the company’s culture and the effectiveness of the company’s **values to support ethical business practice** across the organisation

### How the Board continued to monitor culture over the past year

#### Regular reports on Speak Up

#### Link to culture

The Audit Committee receives regular reports on the company’s Speak Up policy, including information in respect of the number and seriousness of the reports.

By monitoring concerns raised, often anonymously, the Board is afforded insight into the potential ethical culture within the business and can take steps accordingly.

#### Reviewing the results of employee engagement surveys

#### Link to culture

Both the all-employee GALLUP and targeted ‘pulse’ surveys provide valuable insight into the attitudes within the company.

By reviewing the high-level results, the Board is informed about the level of engagement across the business. Engagement, values and ethics have a positive correlation.

#### Reviewing progress against the company’s ED&I action plan

#### Link to culture

A series of activities has been developed to drive the company towards a leader-led organisation.

By reviewing progress against defined measures, the Board is able to fulfil its role in leading, enabling and governing inclusion in the organisation.

The Board has continued to review metrics to effectively monitor culture including:

- Employee engagement scores
- Gender hourly pay and bonus pay and gender distribution
- Near misses and employee sickness
- Pollution incidents and compliance
- Water Quality compliance
- Customer satisfaction (C-MeX) and complaints
- Speak Up (whistleblowing) reports.

# Corporate governance report continued

## 2. Purpose, value and culture continued

### Examples of ways that the Board monitors and assesses culture

Board member/group	Examples
Audit Committee	The committee receives regular reports on the company's Speak Up policy, including information in respect of the number and seriousness of the reports.
Health and Safety and Operational Risk Committee	The committee receives regular reports on health and safety matters, including the number of incidents/accidents and the culture of health and safety in the company, in particular trends with regard to 'near-miss' and hazard reporting.
ESG Committee	The committee receives regular reports on people and culture, including ED&I, employee engagement and development.
Workforce engagement non-executive director	The director meets regularly with employee forums and the company's HR team to enable him to understand the views within the organisation.

### Stakeholder engagement

Throughout the year, the Board has been kept informed of the views of the company's stakeholders, including its regulators, suppliers, investors and government. The company's Chair and Chief Executive Officer regularly attend meetings with government bodies such as Ofwat, the Department for Environment, Food and Rural Affairs, the Environment Agency and Drinking Water Inspectorate.

The CEO also regularly attends meetings and other events with Water UK in respect of matters relevant to the water sector as a whole.

Further information about stakeholder engagement can be found on pages 33 to 41 and as part of the company's section 172(1) Statement on pages 96 to 99.

### Employee engagement

In accordance with the UK Corporate Governance Code and in support of the Board's duty under section 172(1) to consider the interests of the company's workforce as well as part of the Board's role in its monitoring and assessing of culture, Mark Mathieson succeeded Kevin McCullough as the appointed non-executive Director with the remit of communicating the views of the company's workforce (as defined in the UK Corporate Governance Code) to the Board.

The scope of this role includes:

- Obtaining and communicating to the Board the views of the company's workforce in respect of matters, including pay and conditions; health, safety and wellbeing; working environment and culture. This enables the Board to give appropriate consideration of the interests of the workforce. Communication methods include: regular meetings with the company's workforce representatives, the HR Director, the Director of Corporate Relations and the Head of Health, Safety, Security and Wellbeing; attendance at workforce events; and visits to operational sites and offices.
- Providing regular reports to the Board.
- At least annually, meeting with the chair of the Remuneration Committee to enable the committee to take into account the conditions of the workforce when setting executive remuneration policy (in accordance with the UK Corporate Governance Code).

Following on from their success during 2022–23, during the year the Chief Executive Officer also carried out bi-monthly meetings via tele- and video-conferencing facilities with all employees invited to attend and ask any questions.



# Corporate governance report continued

## 2. Purpose, value and culture continued

### Board listening approach

Board listening channels	What this channel brings
<p><b>Non-executive director for workforce engagement</b></p>	<p>This provides an opportunity for the Board to obtain information about the views of the workforce directly as opposed to via management.</p>
<p><b>Company Conversations</b></p>	<p>These provide an opportunity for all employees to directly ask questions of and communicate their concerns to the CEO.</p>
<p><b>All-employee surveys</b></p>	<p>The all-employee surveys give the Board an insight into the engagement and satisfaction levels of employees as well as insight into the culture and ethics of the organisation.</p>

### A letter from Mark Mathieson



**Mark Mathieson**  
Non-executive Director

“My understanding of employee engagement and concerns reinforces my work on the Health and Safety and Operational Risk Committee, and the ESG Committee.”

**Mark Mathieson**  
7 July 2023

[➔ Read more about employee engagement on pages 69 to 74.](#)

“Since the changes introduced by the UK Corporate Governance Code in 2018, one of the suggested methods for the Board to obtain a clearer understanding of the concerns of the workforce is to assign a non-executive director with the remit of engaging with the workforce and reporting to the Board. In 2022, I succeeded Kevin McCullough to the role to provide an important, potentially, alternative route for employees to raise concerns as well as provide a perspective on employee concerns and engagement, independent of management.






“As such, during the year, I have attended meetings with the company’s human resources management and the workforce representative groups. I am pleased to see that various matters brought to the Board are discussed and tested with our Employee Voice group and other employee forum, for example the fourth value, Working with Care, and the development of the Health and Safety Transformation Programme.

# Corporate governance report continued

## 2. Purpose, value and culture continued

### Board activities

During the year, the Board reviewed and considered a number of key matters as part of implementing the company's strategy.

Area	What was reviewed and considered?	Link to our strategy
<p><b>Business strategy</b></p> <p>The company's plan to deliver over the 2020–25 period and beyond.</p>	<p>The Board considered the impact of changes to the company's design and delivery of capital projects to improve the resilience of its assets as well as a move toward more proactive maintenance. In addition, the Board has approved a Turnaround Plan to deliver the company's business objectives.</p>	
<p><b>The environment</b></p> <p>The company's impact on the environment.</p>	<p>The Board oversaw the launch of the company's storm overflow reduction programme.</p>	
<p><b>Our customers</b></p> <p>The company's delivery for our customers.</p>	<p>The Board reviewed and monitored the steps taken by the company in response to the cost of living crisis, including customers in financial difficulty as well as those who are vulnerable. The company increased the minimum discount for eligible households on its social tariff from 20% to 45%.</p>	
<p><b>Our finances</b></p> <p>The company's ability to continue to operate as a going concern and deliver its strategy.</p>	<p>The Board reviews the company's performance and its finances at every Board meeting. In the face of significant cost pressures over the last 18 months, including above inflation increases for energy, costs for the maintenance and upgrade of its network, as well as higher funding costs, to maintain its turnaround momentum, Southern Water has engaged with its shareholders to seek an additional £550 million of equity funding into the group. This process is expected to complete later in 2023.</p>	
<p><b>Our people</b></p> <p>The health and safety and wellbeing of our workforce.</p>	<p>The Board reviewed the company's Health, and Safety Transformation Programme, which seeks to further embed a health and safety culture within the organisation. The Board approved the company's fourth value, Working with Care.</p>	

**Key:**



Deliver great service



Protect and improve the environment



Use water wisely



Fit for the future

# Corporate governance report continued

## 3. Effectiveness

3

### Effectiveness

The regulated company has an effective board with full responsibility for all aspects of the regulated company's business for the long term.

"A Board must be effective if the company is to deliver its strategy and plans. In assessing its effectiveness, the Board must take steps to address areas identified for improvement."

**Keith Lough**

7 July 2023

An evaluation should consider the balance of skills, experience, independence and knowledge, and diversity.

#### Board evaluation

In line with the UK Corporate Governance Code and the Ofwat Principles, there is an annual evaluation of the Board in terms of its performance and effectiveness. Due to the major changes on the Board following the investment by funds managed by Macquarie Asset Management in 2021, it was agreed that a second successive annual external evaluation, facilitated by Korn Ferry, would take place at the beginning of 2022, notwithstanding that there was an external evaluation during 2020–21.

Typically, in accordance with listed company best practice, Southern Water conducts an externally-facilitated Board evaluation once every three years.

2020–21	External evaluation
2021–22	External evaluation
2022–23	Internal evaluation

#### Progress against last year's evaluation

The Board evaluation during 2022–23 was undertaken internally, and built on the external evaluation that took place in 2022.

Good progress has been made in all areas identified by the Board evaluation conducted in early 2022.

# Corporate governance report continued

## 3. Effectiveness continued

### Evaluation of the Board

The internal evaluation was based on a number of key areas to be assessed, which were defined in conjunction with senior management, and were addressed during interviews with each of the directors. These areas included: alignment with strategy and direction of the group; alignment on Board responsibilities; Board composition; directors' contributions; quality of discussions; delivery; quality of secretariat support; and effectiveness of Board committees.

Following the completion of the evaluation, the outcomes and suggested actions were presented to the Board by the Chair.

The Board also conducted an evaluation of the Chair, led by the senior independent non-executive director. The feedback from the review by the senior independent non-executive director and from the non-executive directors consulted as part of this process was positive.

### Board development and training

The Board also has access to professional development provided by external bodies and by the company's professional advisers.

In the Chair's annual appraisal of the non-executive directors, he considered any specific training and development needs for the non-executive directors. The Board members individually also carry out their own training and development, such as by attending relevant seminars and workshops to ensure that their knowledge is kept up to date.

# Corporate governance report continued

## 3. Effectiveness continued

### Nomination Committee Report

Message from the Chair



It has been another full year for the Nomination Committee. There have been planned Board changes relating to the retirements of two long standing directors, Rosemary Boot and Paul Sheffield, whose terms came to an end.

The committee has been actively recruiting two new independent non-executive directors. This is in addition to the appointment of a new CEO and CFO, following the retirement of the incumbents. I reported last year that a priority of the Board for 2022–23 was to improve diversity and I am delighted that Kerensa Jennings and Christèle Delbé joined us in May 2023, alongside Phil Swift, a shareholder nominated non-executive director. All bring fresh perspectives and diversity of opinion and thought.

We have supported Lawrence Gosden in his continuing strengthening of the executive team, welcoming a new Chief People Officer, Usha Baidya, and Deborah Binks Moore as Interim Director of Corporate Relations in May 2023.

As I reported last year, an independent third-party effectiveness evaluation was undertaken towards the end of 2021–22 and we have focused on implementing the recommendations. As part of our recruitment processes, we have undertaken an informal review to ensure that the Board remains effective, while strengthening it in key areas. I have led that review, supported by Paul Sheffield as senior independent non-executive director.

**Keith Lough**

Chair of the Nomination Committee

7 July 2023

### Committee membership



**Keith Lough**

Chair

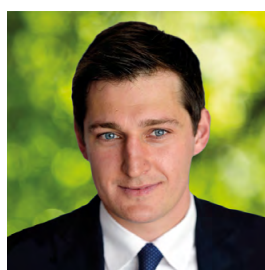
Attendance 2/2



**Paul Sheffield**

Committee member

Attendance 2/2



**Will Price**

Committee member

Attendance 2/2

Note: Following the retirement of Paul Sheffield on 31 March 2023, Gillian Guy was appointed to the Nomination Committee.

### Areas of focus this year:

- Selection process and appointment of new Chief Financial Officer and Chief Executive.
- Board diversity.
- Implementing the recommendations of the externally facilitated Board review.
- Selection process for two new independent non-executive directors.

### Priorities for 2022–23:

- Continued focus on Board succession planning.
- Supporting the continuing drive for diversity on the Board, and within the company.
- Supporting the strengthening of the Executive team.

# Corporate governance report continued

## 3. Effectiveness continued

# Our role is to ensure an effective Board

### Introduction

The Nomination Committee is responsible for reviewing the structure, size and composition of the Board and, based on the results of this review, for assessing the balance in terms of independence, skills, experience, expertise and diversity on the Board and making appropriate recommendations based on this assessment. The committee leads the process for identifying and nominating candidates to fill independent non-executive director vacancies.

### Board appointment process

The Nomination Committee leads the appointment process for a new independent non-executive director based on criteria for skills, experience and knowledge, determined as a result of the committee's review of the Board's composition. The committee, typically supported by an external search firm with no connection to the business, produces a role specification and then leads the search for appropriate candidates. The preferred candidate is selected through a series of meetings between Board members and the candidate(s).

When the committee is satisfied with its preferred choice, it then recommends the appointment to the Board for approval. The candidate is also required to meet with Ofwat under the provisions of the Board leadership, transparency and governance principles. Once the candidate has met with Ofwat and, subject to receipt of approvals by the Southern Water Board and under the terms of the Shareholders' Agreement between investors in Greensands Holdings Limited, the individual is appointed as a director according to the terms published at: [southernwater.co.uk/our-story/our-governance/appointment-of-non-executive-directors](https://southernwater.co.uk/our-story/our-governance/appointment-of-non-executive-directors).

The Board, as a whole, supported by the Nomination Committee, appoints those individuals nominated by investors under the terms of the Shareholders' Agreement. These candidates are, as with the independent non-executive directors, required to meet with Ofwat prior to appointment.

The current Chair would not chair the committee if it was considering his succession.

### Director induction

On appointment to the Board, induction coverage is agreed with each appointee and then an appropriate comprehensive and individualised induction is provided. This will include access to, and time with members of the executive and other key staff, information on the company structure, the regulatory framework of our business, customer service and the operation of assets, strategic plans, financial reports, business plans and our governance framework and holding group structure. In addition, the appointee will meet with the company's external advisers as appropriate. The appointee will also be afforded the opportunity to visit the company's sites.

### Board diversity

Diversity of views and opinions in a decision-making body ensure that proposals face sufficient scrutiny and challenge, and that decisions are made based on a broad range of perspectives.

Diversity and different perspectives facilitate innovation, which is of great importance for any business. Therefore, the composition of the Board is made up of individuals from a diverse range of backgrounds, industries and professions to encourage a diverse range of perspectives. Furthermore, a Board must also reflect the communities and other stakeholders served by that business and there should be representation of different genders and of different ages, ethnic and social groups.

The Board continues to be supportive of greater representation of those historically underrepresented in senior leadership positions and seeks to, as a minimum, aim to meet the expectation applicable to listed companies that at least 25% of Board members are female. Women made up 18% of the Board (two out of 11 directors) as at 31 March 2023, and 25% of the Board (three out of 12 directors) as at 7 July 2023.

# Corporate governance report continued

## 3. Effectiveness continued

### Approach to succession planning

A considered and thorough assessment of the skills and expertise on the Board and what will be required in the future is of great importance for the long-term resilience of an organisation. The Board, assisted by the Nomination Committee, has reviewed its current array of skills and expertise as well as what is required in order to ensure that the Board continues to be effective.

### Conflicts of interest and time commitments

As a matter of law as well as being able to function effectively, directors must be free of conflicts between the interests of the company and their own interests, or, where such conflicts are unavoidable, appropriate mitigations must be in place. Directors are required to declare any external interests that they or persons closely connected to them might have which could, reasonably, conflict with the interests of Southern Water. Under its Articles of Association, the Board of Southern Water is not permitted to authorise conflicts of interest.

The Board is aware of the potential for conflicts of interest in respect of the directors nominated by the investors and closely monitors this. As statutory directors, these individuals must manage any conflicts arising from their position in accordance with the provisions of the Companies Act 2006.

It is accepted that most directors will also have appointments on other boards (or similar bodies) or, in the case of non-executives, potentially also have full-time executive positions in other companies.

This is viewed positively, as it allows for a breadth of experience and enables Southern Water to take advantage of perspectives and expertise from other industries and sectors. However, the director must be able to devote sufficient time to their role at Southern Water and be able to discharge their duties effectively. Therefore, the number of external appointments of each director is kept under review. Under their terms of appointment, independent non-executive directors are expected to devote at least 24 days per year to their role.

The Board is satisfied that all directors were able to devote sufficient time and attention to their role at Southern Water throughout the year.

# Corporate governance report continued

## 4. Transparency and accountability



4

### Transparency and accountability

The Board's leadership and approach to transparency and governance engenders trust in the regulated company and ensures accountability for their actions.

“The role of the Board is to ensure the transparency and accuracy of all information published by the company. This is vital in order to build trust and confidence.”

**Malcolm Cooper**

7 July 2023

The Board is there to make sure that the company reports transparently about its performance to markets and key stakeholders such as its regulators and customers.

The publication of financial statements and other documents is a core element of ensuring transparency and accountability on the part of the company. These disclosures must be correct and accurate, otherwise they cannot be relied upon by their respective audiences. The Audit Committee plays a key role in this process.

The committee is supported in its work by both internal and external auditors who can give independent assurance of the information presented by management.

Companies must also be transparent about the market and environment in which they operate, including the risks faced and what risks the company is willing to accept as well as its strategies for mitigation of these. Accordingly, companies need to clearly understand the risk landscape in which they operate and the Board needs to agree what level and type of risk is acceptable.



# Corporate governance report continued

## 4. Transparency and accountability continued

### Audit Committee Report

Message from the Chair



The Audit Committee has had a full agenda this year. In addition to focusing on both financial and non-financial reporting for the annual and interim financial statements, the committee has overseen the assurance for key regulatory submissions throughout the year.

The committee has continued to monitor the company's culture programme through regular updates on the Speak Up service, as well as progress against the obligations, commitments and undertakings of the company to its regulators.

Management reported the status of its IT and internal financial controls to the committee, identifying actions to address identified areas for improvement.

#### Malcolm Cooper

Chair of the Audit Committee

7 July 2023

### Committee membership



#### Malcolm Cooper

Chair

Attendance 4/4



#### Rosemary Boot

Committee member

Attendance 3/4



#### Will Price

Committee member

Attendance 4/4

Note: Following the retirement of Rosemary Boot, Kerensa Jennings was appointed to the Audit Committee on 31 May 2023.

### Areas of focus this year:

- Annual and interim financial statements.
- Non-financial assurance.
- Progress on undertakings and commitments given to our regulators.
- Assurance for the Price Review 2024, our Drainage and Wastewater Management Plan, Water Resource Management Plan, our submission to the Water Industry National Environment Programme and our Water for Life – Hampshire programme.
- Compliance and controls.
- Ongoing investigations and the associated accounting treatment.

### Priorities for 2023–24:

- Assurance of our business plan for the period 2025–30.
- IT and internal financial controls.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Introduction

The Audit Committee focuses on the monitoring and review of the company's internal controls in respect of its financial and non-financial data, as well as the controls put in place to address risk within the business in areas such as legal and regulatory compliance, and information governance and information security. The committee also oversees the relationship with the company's external auditors and oversees the work of the company's internal audit function. As reported last year, responsibility for monitoring and reviewing risk appetite and 'strategic' risks moved to the Audit Committee from the then Risk Committee. The Health and Safety and Operational Risk Committee continues to have responsibility for the monitoring of operational risk.

A primary area of focus is the company's annual and interim financial statements, including reviewing, assessing and recommending to the Board related areas including any relevant judgments and accounting treatments, going concern and long-term viability statement and 'fair, balanced and understandable' assessments, as well as reviewing and assessing the company's non-financial reports such as the Annual Performance Report.

Throughout 2022–23, the committee received regular reports from the Head of Group Accounts, Group Treasurer, Head of Internal Audit and the company's external financial and non-financial assurers and auditors. The Chief Executive Officer, Chief Financial Officer, and the company's external financial and non-financial audit partners are all regular attendees at meetings of the Audit Committee. The committee also has access, as appropriate, to external professional advisers.

The committee is comprised of a majority of independent non-executive directors. No executive directors or the Chairman of the Board may be members of the committee, and at least one member of the committee must have recent and relevant financial experience, and at least one member must also have competence in accounting and/or auditing. The Chair of the Audit Committee is also a member of the Health and Safety and Operational Risk Committee.

### Work of the Audit Committee during the year

Throughout the year, the committee received regular updates on financial reporting, risk, internal audit and the company's regulatory framework.

An area of focus continues to be the company's performance in improving its internal controls and reporting in respect of non-financial information.

During the year the work of the Audit Committee focused on the following key areas:

- The company's annual and interim financial statements and going concern and viability statements.
- Non-financial regulatory reporting and improvements in processes and controls, including oversight of external assurance.
- Internal controls – including financial and IT.
- Corporate governance matters.
- Condition P.
- Annual review of Licence.
- Internal audit reports and plans.
- Oversight of internal and external audit, including an assessment of the effectiveness of the external auditor.
- Compliance with the company's legal and regulatory obligations in relation to financial and non-financial reporting.
- Water and wastewater regulatory compliance.
- Speak Up.
- The undertakings given to Ofwat as part of the regulatory settlement.
- The assurance for regulatory submissions.
- The ongoing investigations by the Environment Agency and Ofwat and the associated accounting considerations.
- The level of non-audit fees paid to the external audit firm.

### Financial statements

The Audit Committee received and reviewed the financial statements, including the key areas of judgment and estimation uncertainty set out in note 2, and the external audit report from Deloitte regarding the year-end financial statements, considering any items of significant judgment that have been made and comments on the control environment. There were no significant issues raised by Deloitte. The company continues to take steps to address the matters, including the fact that Deloitte were unable to rely on IT controls, raised by Deloitte's audit and the committee will monitor progress.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Unbilled revenue

There were no changes to treatment of revenue recognition in the year, nor to the underlying system for estimating the measured income accrual.

#### How this issue was addressed

Non-household revenues recovered further during the year, which was expected following the lifting of COVID-19 restrictions in the prior year. In total, actual billing was £7.9 million lower than the accrual made at March 2022 reflecting the fact that customer usage patterns have been harder to predict following the pandemic.

### Impairment of trade receivables

The company's policy for providing for bad debt based on customer segments and the age of outstanding debt has not changed in the year and the methodology used last year was applied, on a consistent basis, to calculate the base underlying provision charge for the full year accounts.

#### How this issue was addressed

At March 2022, an additional provision charge of £10.3 million recognised as a judgment for the impact of the pressure on household finances from high inflation and the wider economy.

Across 2022–23 we did not experience a significant change to customer payment behaviour. However, given that the pressure on household finances is continuing the Committee agreed with managements decision to retain an amount for this issue within the provision.

We applied a consistent approach to the prior year to estimate the value for the provision to carry for this, ranking our customer segments as high, medium or low risk and generating a provision based on this. This is a significant judgment for these accounts and has resulted in a provision charge of £9.6 million being retained at March 2023.

### Provisions and contingent liabilities

The investigation by the Environment Agency (EA) into wastewater sampling compliance and the separate industry wide investigations by Ofwat and the EA wastewater treatment works are ongoing.

#### How this issue was addressed

The Audit Committee has considered the status of these investigations along with advice from internal and external legal advisors in order to assess whether it would be appropriate to make a provision or disclose the matters as a contingent liability. Given the status of the investigations, the Committee concluded that it was appropriate to disclose them as a contingent liability, see note 33 to these accounts.

### Going concern

The committee considered the going concern assessment for the company with specific consideration of whether the company should disclose a material uncertainty in its going concern statement.

#### How this issue was addressed

The committee reviewed the current financial projections of the company for the going concern period and the progress made and likely timing of new equity. It noted that the company only has sufficient liquidity to support its plans for part of the year and is reliant on the injection of new equity to fully support its financial projections. As a result, the committee concluded that it would be appropriate to disclose a material uncertainty in the going concern statement.

### Viability statement

We have continued to use the period through to 2030 for the viability assessment.

#### How this issue was addressed

The committee reviewed the company's viability assessment and agreed for this to be made for the period to 2030 for this year. Please see pages 133 to 136 for our statement.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Our Ofwat performance commitments

The company has an external non-financial assurer to independently assure its non-financial reporting to Ofwat and that there is a robust system of internal controls in place for non-financial regulatory reporting, such that information in the Annual Performance Report fairly represents the company's progress and delivery of its promises. The assurer attends meetings of the Audit Committee and reports formally the results of its assurance.

### Section 19 Undertakings

As part of the regulatory settlement reached with Ofwat in 2019–20, the company agreed to certain undertakings to implement improvements in the business in areas such as culture and robustness of non-financial reporting, as well as to recompense current and former customers. The Audit Committee is responsible for monitoring and reviewing the controls and assurance put in place by management in respect of these undertakings and receives regular reports from management about the progress against the agreed action plans and from the company's external assurers in respect of such progress.

### Internal controls

The committee keeps under review the internal financial controls systems of the company that identify, assess, manage and monitor financial risks along with other internal control and risk management systems and, accordingly, receives regular reports from both Internal Audit, external audit and any external assurers appointed by the company to review any particular areas of concern.

The committee receives a regular report of any incidents of fraud or bribery, including the actions taken to investigate and respond to the incidents and information on potential incidents of wrongdoing under investigation.

The committee is provided with updates on matters identified via the company's Speak Up policy. There were no material incidents reported via Speak Up during the year.

The committee is also aware of the need to ensure that the group complies with sanctions placed on individuals and organisations in Belarus and Russia following the invasion of Ukraine.

### Oversight of internal audit and external audit

The Audit Committee is responsible for overseeing both the work of the Internal Audit function and for the management of the relationship with the external auditor and external non-financial assurer. The committee reviews the performance of external auditors on an annual basis to ensure that they remain effective.

In accordance with best practice, the committee held discussions with both the internal and external auditors and the external non-financial assurers in the absence of management and the Audit Committee will continue this practice.

### Internal audit

The Lead Audit Manager and the team report on a day-to-day basis to management on the effectiveness of the company's systems of internal controls and the adequacy of these systems to manage business risk and to safeguard the company's assets and resources.

The committee received regular reports throughout the year from Internal Audit in respect of its work during the year in accordance with the internal audit plan agreed with the committee at the beginning of the year. The reports from Internal Audit are a material element of the assurance received by the committee on the company's controls. If changes are required to internal audit action dates for medium and high actions, the action owners are required to attend the committee and explain why such changes are required and to seek the committee's approval.

The committee reviews, at least annually, the level of resources and the budget of the Internal Audit function. The Head of Internal Audit is able to raise any issues with the committee or its Chair at any time during the year.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Fair, balanced and understandable

At the request of the Board, the committee has considered whether, in its opinion, this Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and whether it provides the information necessary for shareholders to assess the company's position, performance, business model and strategy.

#### Step 1 – Developing key themes

The initial themes and structure for the Annual Report are developed, taking into account feedback from Ofwat and other stakeholders as well as a 'best practice' review.



#### Step 2 – Drafting content

Subject matter experts are identified to provide the detailed information used to draft the content for each section of the Annual Report.



#### Step 3 – Review

The draft content is reviewed by the subject matter experts, the project team, legal team and members of the Executive team.



#### Step 4 – Assessment

The content of the report is reviewed to determine which statements are 'positive' and which are 'negative'. These are then extracted and provided to the Audit Committee organised by section and/or subject for it to review the key areas of the report for fairness, balance and understandability.



#### Step 5 – Decision

Based on the content provided to it as well as their own reading of the draft Annual Report, the Audit Committee members make their decision whether or not to advise the Board that the Annual Report, taken as a whole, is fair, balanced and understandable.

### Risk

During the year, the Audit Committee was responsible for supporting the Health and Safety and Operational Risk Committee's work in overseeing and challenging the effectiveness of Southern Water's approach to risk management. This included responsibility for monitoring the effectiveness of the company's systems of internal controls and for endorsing an internal audit plan that is informed by principal risk exposures, including overseeing targeted reviews of key risk and control areas. Following the changes to the committee remit in February 2022, the Audit Committee is now responsible for monitoring and reviewing the company's risk appetite and tolerance and for more 'strategic' risks.

The committee is also responsible for maintaining an assurance landscape that has integrity, independence and reliability.

### External auditor

As reported last year, a tendering exercise was carried out in 2020–21 with Deloitte LLP being re-appointed as the external auditor. During 2022–23 the audit partner, Delyth Jones, was replaced by Lucy Openshaw.

The Audit Committee reviews the external auditor's effectiveness each year, seeking views from the committee and management via a questionnaire, and would report to the Board any concerns over the continuation of the appointment.

The committee undertakes an annual review of the external auditor's independence and objectivity within the context of the applicable regulatory requirements and professional standards. This includes an assessment of the impact of any non-audit work carried out by the audit firm on the auditor's independence and objectivity. In the committee's view the external auditor met these criteria. The committee also monitored the ratio of audit fees to non-audit fees and approved non-audit services and fees paid to Deloitte during 2022–23.

Details of the amounts paid to Deloitte for these services are provided in note 6 to the financial statements.

In accordance with listed company practice, the external audit contract will be put to tender at least every 10 years. A tender process would also be initiated if there were any concerns about the quality of the audit or the independence and objectivity of the auditor. There are no contractual obligations that act to restrict the Board's choice of external auditor, although the Board is mindful of non-audit services currently being undertaken by other potential external audit providers.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Health and Safety and Operational Risk Committee Report



A key area of focus for the Health and Safety and Operational Risk Committee (HS&ORC) has been oversight of the development of the company's Health and Safety Transformation Programme, together with tracking progress throughout the year.

The committee regularly received updates on accelerating and emerging risks as well as key risks impacting business performance. The committee reviewed the company's principal risks.

A number of deep dives were also performed into areas of the business, including water resources and drought, water quality and pollutions, winter readiness and cyber security.

Management presented its business readiness for the 2022–23 winter, with mitigation actions drawn from the impact of the storms of 2018 (Beast from the East) and 2022 (Storm Eunice).

#### **Mike Putnam**

Chair of the Health and Safety and Operational Risk Committee

7 July 2023

### Committee membership



#### **Mike Putnam**

Chair

Attendance 4/4



#### **Kevin McCullough**

Committee member

Attendance 1/1



#### **Malcolm Cooper**

Committee member

Attendance 1/2



#### **Mark Mathieson**

Committee member

Attendance 4/4

Note: Kevin McCullough resigned from the Board and the committee on 31 July 2022. Phil Swift was appointed to the committee on 31 May 2023.

### Areas of focus this year:

- Development of the company's Health and Safety Transformation Programme
- The company's plans for winter readiness
- Cyber security
- Water quality risk pollutions.

### Priorities for 2023–24:

- Progress against the Health and Safety Transformation Programme
- Health and Safety Culture.

# Corporate governance report continued

## 4. Transparency and accountability continued

### Introduction

The Health and Safety and Operational Risk Committee has responsibility for monitoring and advising on day to day operational risks, together with reviewing and monitoring health, safety, security and wellbeing, and continuing to provide appropriate advice and recommendations to the Board in this area. The Chief Executive Officer, Chief Operating Officer, Director of Health, Safety, Security and Wellbeing and Head of Risk and Assurance are all regular attendees at meetings of the committee. The committee also has access, as appropriate to external professional advisers.

The committee is comprised of a majority of independent non-executive directors. The Chair of the Audit Committee is also a member of the Health and Safety and Operational Risk Committee to ensure there are no gaps in the remits of the two committees.

### Health, safety, security and wellbeing

In addition to receiving updates on the company's health and safety performance, the committee oversaw the development of the company's Health and Safety Transformation Programme. This programme was developed by management having regard to the findings of the review undertaken by a third-party advisory firm and the outcome of an Ambition Workshop held with 40 colleagues from across the organisation. The committee received regular updates on progress of the programme.

The committee received an update on the company's Gold, Silver and Bronze award scheme to set and raise site standards and celebrate success, together with a demonstration of software to support point of work risk assessments.

In taking steps to improve the safety culture of the business, the company identified an absence of a specified safety core value. A fourth value, Working with Care, was developed to support the company's commitment to ensuring that everyone returns home safe and healthy at the end of the working day. The new value was piloted through the company's Employee Voice group and presented to the committee for their consideration before approval was sought from the Board.

### Operational Risk

During the year the committee received reports from management to enable it to monitor and review the company's operational risks and relevant risk management systems. Updates included winter preparedness, water quality risk, IT controls, security and cyber security. A risk management update is presented at each meeting, providing the committee with details of the company's Enterprise Risk Management (ERM) framework and practice within Southern Water. The committee received updates on the enterprise risk profile, and the current risk position and emerging risk. The Full Enterprise Risk Report is provided to the Audit Committee.

Operational risk deep dives on key areas were presented to the committee, including the deep dives on water quality, flow and pollutions.

# Corporate governance report continued

## 4. Transparency and accountability continued

### ESG Committee Report

Message from the Chair



As reported last year, the Board approved the formation of an Environmental, Social and Governance Committee, tasked with supporting the Board in defining the company's strategy and reviewing priorities and initiatives relating to ESG matters.

The committee met for the first time within the reporting year, chaired by Rosemary Boot. With Rosemary's resignation from the Board, I am pleased to present, as both a member and now Chair of the committee, this report.

Throughout the year, the committee has reviewed and challenged the effectiveness of the company's ESG strategies, priorities and initiatives. An assessment of ESG confirmed management's view that the company is at differing levels of maturity and ambition across the ESG universe. Management is focused on prioritising ESG strategic ambitions and tactical activities and to develop maturity in aspects most closely aligned with the company's long-term goals and stakeholders' expectations.

The committee received updates from management, including on the company's progress against its Equality, Diversity and Inclusion (ED&I) action plan, covering the development of a gender action plan to improve both recruitment and retention of women across the organisation.

The committee was pleased to hear from the Chair of the company's Independent Climate and Environment Group (ICEG) and a representative of the Customer Challenge Group, sharing viewpoints from the company's customers and stakeholders.

**Gillian Guy**

Chair of the ESG Committee  
7 July 2023

### Committee membership



**Rosemary Boot**

Chair

Attendance 4/4



**Gillian Guy**

Committee member

Attendance 1/4\*



**Mark Mathieson**

Committee member

Attendance 4/4

Note: Following Rosemary Boot's retirement from the Board and the committee on 31 March 2023, Gillian Guy was appointed chair. On 31 May 2023 Christèle Delbé and Kerensa Jennings were appointed to the committee.

\* Meeting schedule clashed with previously agreed commitments.

### Areas of focus this year:

- Development of the ESG strategy.
- Net zero plans.
- Diversity targets and gender action plan.

### Priorities for 2023–24:

- Climate-related risks and opportunities.
- Monitoring diversity and inclusion activities and outcomes.
- Review of ESG-related reporting.



# Corporate governance report continued

## 4. Transparency and accountability continued

### Introduction

In its first year, the ESG Committee has received updates on a broad spectrum of ESG-related topics, challenging and supporting management on the development of the company's plans. The committee received an update on the status of the company's published ESG policies and ESG-related reports.

### Environment

The committee received updates on the work of the Environment Steering Group and the company's climate change action plan, and heard directly from the Chair of the Independent Climate and Environment Group. It also reviewed the company's net zero plans and considered strategy in this area. Read more about the company's approach to climate change on pages 75 to 95.

### Culture

Building on the work of the Board in prioritising the monitoring of culture across the organisation, the Committee received an update on the results of the annual employee engagement survey. Overall satisfaction returned to the 2021 level, with 'My manager cares about my wellbeing' seeing the strongest result.

Plans to address the gender imbalance at senior management levels have been developed and a deep dive on the company's ED&I vision and ambition was presented to the committee. Progress against the company's People plan, which is an enabler to the overall turnaround plan, is reported to the committee.

### Customer

Hearing the views of our customers and the impact the company's operations have on them is important to the committee. A representative of the company's Customer Challenge Group attended the committee to provide insight into customer and stakeholder views. In addition, an update on customer insights was presented, explaining how the company ensures it understands the views of its customers, communities and key stakeholders.

The committee received an update from management on operational incidents that had impacted customers in the year, including customer feedback and the company's response and recommendations for improvement.

The committee heard about the approach to engaging customers and communities when commencing large capital projects, including understand the impact such schemes have.